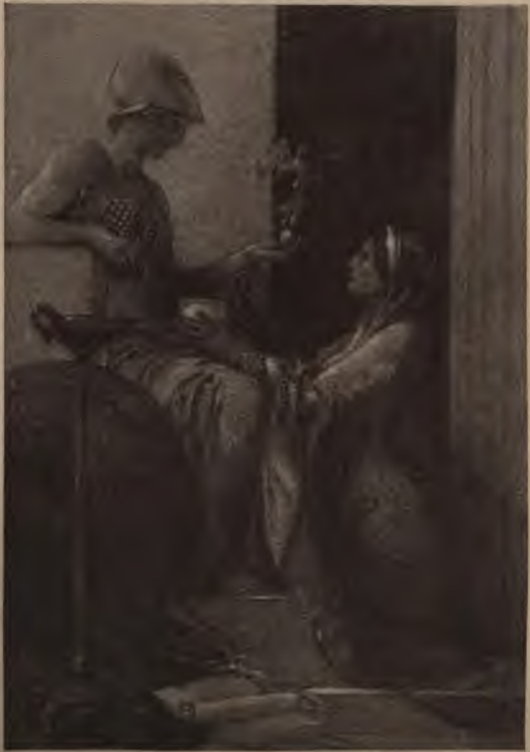

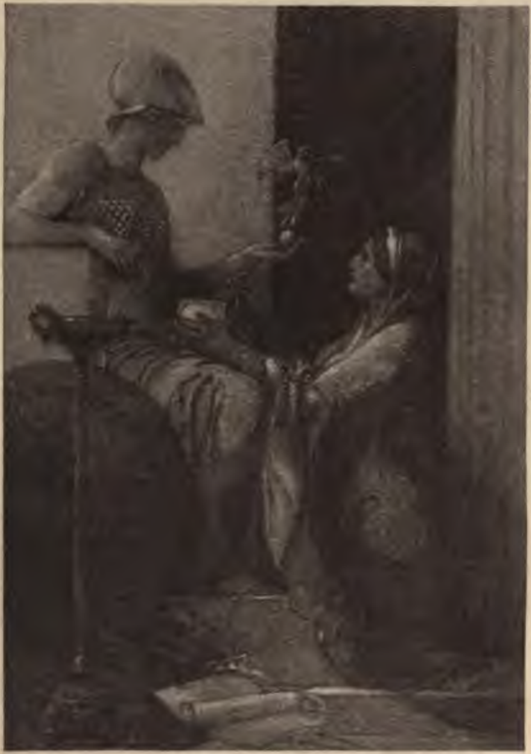

BIG BUSINESS AND GOVERNMENT

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By

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NEW YORK
MOFFAT, YARD AND COMPANY
1912

Published March, 1912

THE QUINN & BODEN CO. PRESS
RAHWAY, N. J.

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I

INTRODUCTION

THE crest of the wave of popular hostility to Big Business, as such, seems to have passed; and the public mind apparently is turning from destructive to constructive consideration of what our scribes love to call THE PROBLEM OF THE TRUSTS. Distinctions can at last be drawn between combination and monopoly, between size and wrongdoing. Professor Bruce Wyman, of Harvard, has just published an admirable short treatise, entitled "Control of the Market," which sketches, with a terse clearness and quiet fairness most helpful to the average reader, the evolution of public opinion and the Common Law upon monopoly, from the Middle Ages down to our day—a booklet, it may be remarked in passing, whose absolute

demonstration of the responsiveness of courts and judges to current opinion ought to satisfy Mr. Roosevelt and lesser critics of the judiciary, that judges too are men, not property: and that they generally place men before property in pronouncing justice. It seems to me worth while to supplement Professor Wyman's most timely study of the evolution of opinion and law as to monopoly with a sort of companion work,—a short study of the thing itself, *the results actually achieved* by such control of the market as has been attempted of late years. For in all the flood of literature and denunciation which has half swamped our trade, I have not chanced to come across a single attempt to tell the public, in brief and simple words, citing such specific instances as are needed for popular enlightenment, how and why business grows big, how far it controls the market, and what have been the actual net results to hated Wall Street and our beloved selves of the so-called "gigantic monopolies," which have so long and well served as stock in trade for politicians and reformers of other men's misdeeds. A few students and economists have considered these results, and reassured them-

selves as to our situation; but in general it may be said that our valiant American people has never stopped running away from Big Business long enough squarely to face and " size up " its bogy.

Therefore I will here set down in the order of their occurrence a few instructive stories from personal experience with fairly big business, in which I was engaged for many years; with short studies of a few typical Trusts, followed by a brief tabular exposition of the actual achievement as shown by their market values, quoted in Wall Street, of *all* the great industrial, railway and public service corporations which are popularly supposed to have a strangle-hold upon our national life.

From these data I shall endeavor to estimate the dangers which really threaten our country from Big Business; those which arise from unreasoning hostility to great wealth, and the extent to which it seems, to an ex-official and also an ex-opponent of several Trusts, worth while to guard against both in enactment of law.

II

A TALE OF THE POWDER TRUST. ILLUSTRATING THE VULNERABILITY OF BIG BUSINESS

THE first "Trust" I ever encountered was not then so called. The term had not been invented in the early '70s. I was a young fellow, confidential man for Peter White, the leading banker in Upper Michigan. He was president of the Lake Superior Powder Company, a small concern organized by the iron mine owners of the Marquette district to make their own blasting powder, because they thought the powder "Combine," composed of the Dupont, Laflin & Rand, Ætna and perhaps other large makers, was robbing them. It charged, as I remember it, $3.50 or $4.00 per keg. The new company contracted for three years at $2.50.

As soon as the latter got into action the Trust dropped its price to $1.50, and the new company was forced to meet the cut despite contracts. The mines "stood pat"

at that price in order to keep the new company alive; but it made no money and ran along profitless for several years. This was very unsatisfactory, and one of the owners, an able man named Morse, proposed to the rest that if given a free hand he would smoke out the enemy. Mr. White and the others consented, and Morse took control of the Company's operations.

The concern had been "bottled up" by the Trust in that remote corner of the United States, doing but a part even of the local powder trade, and at starvation prices. Everywhere else the combination did all the business at full prices. Mr. Morse proposed to spoil those prices wherever possible.

His first move was carefully to ascertain how cheaply he could make powder, and he found that \$1.00 per keg would cover first cost; and that he could freight it by water to various Great Lake ports for about 10 cents per keg. He then made a couple of thousand kegs, loaded them on the little schooner "Oakleaf," captained by a dare-devil known as Poker Bill, and delivered some at Milwaukee, where an agency for the Wisconsin granite quarries was opened; some at Chicago, for the Braidwood coal fields; and

so all around the Lakes. Wherever large quarries or mines were using much powder, he offered it openly at exact cost, from $1.10 to $1.25 per keg, the current Trust price having been from $2.50 to $3.00.

Of course the Trust instantly met the cut and took the trade; for the buyers were afraid to patronize the weak newcomer. This suited Morse perfectly; for he did not wish to sell powder himself at such profitless prices, but merely to compel the combination to do so, and force them to lose heavily on their great trade all throughout the Lake region.

Well, the game was a success; after a few months that conviction dawned on the Trust. Their representative came to Marquette, bought half of the Lake Superior Powder Company at $200.00 per share, guaranteed good dividends on the rest, agreed to keep the plant running and set apart for it the Marquette territory, and to give the mines a fair price in future.

So the astute Morse pulled the little concern out of a nasty hole, and I never forgot the lesson in competition taught by the deal. It is that inflated prices are like children's balloons. A very small pin-prick lets the gas

out of them and down they must come. It was cheaper for the "Combine" to buy this particular pin at far more than its value than to let it keep on pricking.

So it must always be. Much is said of the irresistible power of the great combinations, but they are in fact no stronger in fighting value than their strongest unit; and what is worse they cannot afford to use their strength if tackled in the right way. Given a competitor with knowledge and capital enough to build a new unit as modern and efficient as the best of the old ones, with nerve and brains enough to offer the lowest prices in the widest field, not suffering himself to be bottled up in one corner of it—such a man, without doing much losing business himself, can damage his big competitor beyond belief. One of two things is bound to happen; either he will be allowed to take such business as he can handle at a fairly profitable price—which will stop the price-cutting—or the big fellow will buy him out at such a "nuisance value" as he has been able to establish.

In the early days of the Trust Era, while the Trusts were young and foolish, they were thus "raided" most unmercifully. Witness

John Good's raiding the Cordage Trust, Claus Spreckels the Sugar Trust, and others too numerous to mention. The same game will always and inevitably be played so long as the big concerns, especially in their sales departments, continue to develop, as they must, young and ambitious men, who understand all the games, and prefer to branch out and play them for their own benefit. This the modern Trust magnates thoroughly understand. They have come to know, as the keener of them perceived from the first, that it is fatal to fight able competitors or to absorb weak ones; and that the only sure way to protect their trade, which is always the lion's share, from frequent demoralization, is to do business normally at such low steady prices as to make raiding practically impossible.

I have not followed the career of the Powder Trust since that episode of thirty-five years ago; but those in the trade tell me it has so far smashed the weak, and taken in the strong, as they came along, until now there is but one genuine competitor in the New York market. Powder sells at $2.60 per keg, which should be fairly profitable; and the tariff keeps out foreigners. The

strong hold of the Trust upon the trade is due, however, more to broad facilities for delivery, storage and safe handling of all sorts of explosives and blasting supplies, than to prices.

The independent dealers are bitter against the Trust, saying it refuses to sell to *them;* and they express the opinion that if the protective tariff on explosives were abandoned, and the Sherman Law were repealed, —so that competitors could import or manufacture, fight or sell out at a "nuisance value," as they might find most profitable,—competition would come quickly enough, and come to stay. At present both the tariff and the Sherman Law operate to deter competition.

III

THE CHICAGO TELEPHONE COMPANY. AN ILLUSTRATION OF NATURAL MONOPOLY

There are a few *natural* monopolies, advantageous to all concerned, and therefore sure to persist as such. The Chicago Telephone Company, the first combination in which I was an "insider," was one of these.

I was the representative of the Bell Telephone interests at Chicago from 1879 to 1887, substantially the first eight years of commercial development of that then new and wonderful invention. From 1879 to 1881 there was keen competition with the Edison telephones operated by the Western Union Telegraph, until the Bell patents prevailed in the United States Courts, after which the Edison exchanges everywhere were merged into the Bell system.

But the fight was long enough to demonstrate that there were seldom two successful exchanges in the same town. One or the other forged ahead in service and number of subscribers connected; and the rival exchange,

even though charging less for service, lost subscribers and faded away into desuetude. The reason was simple—all the large houses had to pay for the larger exchange anyhow; and there was then no sense in paying for the smaller, which consisted mainly of duplicates, as far as important connections were concerned. In short it was, and is, to everyone's interest to be in the same telephone system; the ideal service being that which Mr. Vail, now president of the "Bell Telephone" and "Western Union" both, openly proposes—one combining all telephone and telegraph users in the land without exception under one operative control—an absolute monopoly for the common benefit.

When the exchanges were first consolidated in Chicago this monopoly was welcomed by the public. The two competitors had been charging during the war an annual telephone rental of $75.00 each. Upon combination subscribers were offered the option of the old service at old rates or the "joint service" of both exchanges upon one instrument at $125.00 per annum. It took some time, naturally, to make the mechanical connections between the two, which was done district by district, first the outlying, then the central

exchanges; the subscribers meantime waiting impatiently, eager for the broader service even at the higher price. Practically the entire body of some thousands of subscribers accepted this great raise in rates so gladly and quietly that it hardly got into the daily papers. Doubtless, had the Company waited until all mechanical connections were complete, and then notified patrons that willy-nilly after a given date the "joint service" would prevail at the increased rate, there would have been the devil to pay, and no pitch hot. But as the thing was done, everybody was happy, for a while.

Not very long after, however, a lawyer who did not pay his telephone bill had his library attached; and a politician who demanded a free telephone did not get it. One went to the City Council, and the other to the State Legislature for laws attacking the telephone monopoly and its rates. The attack was bound to come in course of time. If these men had not commenced it, others would have found some pretext for doing so. Men naturally resent being obliged to come to a concern with which, rightly or wrongly, they have quarreled. The recourse to councils and legislatures, to political power, for

revenge—the opportunity for blackmail—is too obvious. The result has been that such bodies all over the country have been appealed to from the early days till now to *regulate* the telephone as a *monopoly,* entirely regardless of the fact that, since the patents expired, there has been a widespread, and here and there very energetic, competition from the so-called independent telephone companies. In Chicago, for instance, there is a very large exchange, the Automatic, claiming over 10,000 subscribers. It has not succeeded, though promoters have again and again tried to galvanize it into life, by combining it with other independent companies outside the city, building toll lines to connect them, or even demanding of the State Legislature a law forcing the Bell system to connect its toll lines to the independent exchanges. The effort seems to be in vain, so far: the public takes no interest whatever in the welfare of this competing concern, and there has been in the press and City Council serious talk of permitting the Bell system to buy it, and take it in out of the wet, for the good of its patrons. Of course, the Sherman Law stands in the way, and the Bell Company, apparently, dare not buy; and the

Automatic Company's bankers, perhaps, dare not put any more money into such an unequal competition; certainly the enterprise is in a difficult situation.

In fact the people don't want competition, they want monopoly in the telephone business; but at competitive prices, or lower yet, if such prices can be had by compulsion of political power. We may as well tell the brutal truth: our honest citizens have not the slightest idea of risking a dollar of their own in telephone competition, no matter how inordinately profitable it is alleged to be. The plan put up to them by demagogues is to *compel* those whose money, unluckily for them, is already tied up in the principal telephone plants, to furnish service at the lowest rates which the courts do not reject as confiscatory. An alternative proposal is to condemn the telephone properties, usually at cost of replacement, and operate them at the taxpayers' expense, at rates fixed without much consideration of cost of service.

A very pretty illustration of the public indifference to principle, in fixing rates for public service, is the fight of the telephone users against rates measured by the number of calls made. At the outset the telephone

exchanges almost everywhere charged a flat rental entitling the user to unlimited service; and from the beginning the great disparity in service rendered for the same uniform rental was a just cause of complaint. Nevertheless every attempt to charge strictly by measure have been fought by political means; and in most places there is a hybrid system of flat rates for the large user and measured rates for the small user, which hits the telephone treasury both ways.

But I wander: the purpose of this telephone illustration is to show that there are a few businesses, such as the telephone industry, which are bound in the nature of things to remain monopolies; and for that reason in order to satisfy public opinion and to prevent "predatory" exploitation of popular needs, are bound to be operated or controlled by the community. They seem to be *very* few; telephones with universal connections, street railways with universal transfers, and possibly steam railways with through routes, are all that occur to me, which in actual practical evolution tend to become and remain monopolies, and logically demand regulation by government.

As to all other business, big or little, the

facts, as I am attempting briefly to set them forth in this book, do not seem to me to justify the difficult, immense and uncertain task of regulation by statute and commissions, instead of by supply and demand.

Returning to my muttons—what now has been the net result of the practical monopoly of the great telephone industry in the United States? Despite a very general smoldering antagonism, the controlling spirits of the Bell Telephone system, with extraordinary courage and breadth of purpose, have gone on pouring millions into their property every year, trusting to the sense of justice of the people at large, to give good reward for honest usefulness. It now looks as though they would not be disappointed. They have always believed in good construction and service, fair rates, entire publicity and the issue of securities only for cash paid into the development of the property. They have accepted without reserve the principle of state regulation, and subject thereto openly proclaim their purpose to establish monopoly, as in the public interest. They have bought control of the Western Union Telegraph and some of the Atlantic Cables, and are extending their principle of broadening and cheap-

ening service to these kindred industries. The last annual report of President Vail, which is worthy to be called a state document of the first importance, shows the net results achieved by this colossal near-monopoly; now capitalized at three times as much as the great Standard Oil Company. They are as follows:

Investors have received an average return in dividends from first to last of about six per cent. The parent company's capital, paid for entirely in cash, was at the close of 1910 about two hundred and sixty-three millions of dollars. That of the local companies under its control was some eighty-one millions of dollars. Total dividends paid in 1910 some twenty-five millions of dollars; which cost our ninety-two millions of people, or rather our sixty millions of adults, some forty cents apiece per annum, as the telephone investors' reward for bestowing that great benefit upon the community. I venture to surmise that even among the working classes there are few who do not get their money back every year in saving time and car fares by reason of the telephone.

No "swollen fortune" was made by any

promoter of this industry. Probably the largest winning in telephony, said to be of three or four million dollars, was justly the reward of the distinguished inventor, Alexander Graham Bell, whose use of it has been as worthy as its winning. Perhaps because of this fact, and certainly because of its honest capitalization, broad management and natural usefulness as such, there has been and is no bitter popular hostility to Big Business as exemplified in the telephone monopoly.

NOTE.—Since writing the foregoing chapter, I see in the papers of February 16th that President Mackay of the Mackay Companies announces open warfare of his Postal Telegraph and Commercial Cable companies in combination with the Independent Telephone companies against the Bell Telephone-Western Union-Atlantic Cable combination. This confirms my main thesis that competition is in general bound to come; but at the same time it rather upsets my prophecy that a natural monopoly will eventuate in the telephone industry.

Well, I will let the prophecy stand; and wait with interest to see how the thing works out a few years hence. The Mackay Companies are well financed, and Mr. Mackay and associates are good fighters. There is certainly room in the United States for two telegraph companies; and there may be for two telephone systems, if the natural advantages of a regulated telephone monopoly do not prove superior to those derived from competition.

IV

THE CHICAGO GAS TRUST COMPANY. DESTRUCTIVE COMPETITION. THE EFFECT OF FORBIDDING COMBINATION IS TO DETER COMPETITION

THE Chicago gas combination, the second in which I was an "insider," was widely different in character and evolution from the first. The gas business was old and open, not protected by patents like the telephone; and the Chicago field was the theater of repeated and fierce gas wars, of destructive competition, which by exhaustion of the fighters forced peace and combination.

Long before my time two gas companies had, doubtless through fear of each other, divided Chicago between them, each staying on its own side of the Chicago River; the "Old" Gas Company to the east and the "People's" to the west. Both were operating under special charters, granted by the State away back in the '50s, before there was any general corporation act, and had power to fix their own rates for gas, not ex-

ceeding \$3.50 per 1000 cubic feet. Both were making coal gas. About 1885 new processes for making "water gas," enriched with naphtha or crude petroleum, came into use; and the promoters of two of them cast longing eyes on the rich competitive field offered by the growing city of Chicago. The owners of one process obtained what was known as the "Consumers'" franchise, fixing gas prices not exceeding \$2.50 per 1000 feet, and forbidding a sell-out to any other company. Another group got the "Equitable" franchise on like conditions, and both built plants east of the River. At once a fierce war broke out, and prices fell to \$1.00 per 1000 feet and stayed there for a year or two. The Consumers' Company could not meet bond interest and went into the hands of its bondholders. The Equitable Company never even started to make gas. The "Old" Gas Company, which was in the fighting district, and was very strong, did a tremendous business at the low prices, but soon found itself in an awkward position. Its large cash surplus was exhausted and its dividends stopped by the extraordinary expenditures on the plant required to meet the demand for gas created by reduction of price from \$2.50 to

$1.00 per 1000. Its president, a man over seventy, fell sick under the strain. The "Consumers'" bondholders tried to sell out to him, but he would not, and indeed could not, lawfully buy. It appeared, however, that he was willing to sell his own company. So the Consumers' people, who were rich men, formed a syndicate to buy it, arranging at the same time to deal with the owners of the as-yet-idle Equitable plant. That concern, too, was forbidden by ordinance to sell out to its competitors. It was therefore decided to form the Chicago Gas Trust Company, under the general corporation law of Illinois; not to operate, but to be a "holding company," and acquire, not the property or franchises of the warring companies, but their entire capital stocks, in exchange for agreed amounts of its own stock. There was no statute of Illinois for or against such a proceeding; but the policy of the State was thought to be indicated as favorable to it, by a long existing statute permitting the consolidation of Illinois corporations, provided that their businesses were germane to each other, and carried on in the same neighborhood. Such consolidation was not, however, attempted under this law, because

of an ambiguous phrase, probably referring to specific long-forgotten properties, which stipulated that "no more than two corporations now existing" should be so consolidated.

It was thought wise by the syndicate, while they were about it, to forestall further destructive gas war in Chicago, by taking in the "People's" Company also. It operated west of the River, and had once nearly gone to war with the "Old" Gas Company; the latter having commenced a tunnel for carrying its pipes under the River. The "People's" people, captained by a strong and very able veteran, had prepared for an invasion, by building a new west side generating plant, under cover of a new corporation and franchise; but for the time being had laid no pipes. This plant the veteran called his "Little Joker"; and its purpose was, when the "Old" Gas Company or any other rival should commence laying pipes on the west side, to parallel them foot by foot, and sell gas down to 50 cents, or give it away if need be. Thus the "Little Joker" would make the fight and the People's Company would stay out of it, losing of course its business in the fighting territory, but

keeping full sales and prices everywhere else.

The People's Company was strong and had not been drawn into the war across the River, though it had wisely made what might be called a sympathetic reduction of prices from $2.50 to $1.50 per 1000 feet. Plainly, such a well-equipped and formidable adversary could not safely be left in the rear; and the syndicate was practically forced to take it also. Thus the "combine" was rounded out, by force of necessity.

There was not lacking another motive for its formation, namely, stock exchange manipulation. The members of the syndicate were every one astute "manufacturers of Stocks and Bonds," as one of them once described himself to me, and gas stocks were popular securities on the leading exchanges. The opportunity for profitable flotation of the great Chicago gas properties was obvious, and not to be neglected.

Well; the Trust was completed, and it promptly advanced the price of gas a very little, only to $1.25; then lower than in any city, except those where natural gas was available. Despite this then reasonable price, war at once burst on the combination. The Press,

the politicians, the reform associations, the Council, the Legislature, and—always responsive to public opinion—the Courts, all got after the Gas Trust. The company was adjudged to have been incorporated for the unlawful purpose of monopoly, and therefore to be itself unlawful. It was ordered dissolved by the Illinois Courts in the early '90s, and was, I think, the first *corporation* to suffer that fate. Its directors accepted the decree, abandoned the corporation, turning over its only property, the shares of the four gas companies, to a Trust Company; called in its own shares, and gave the shareholders instead the receipts of the Trust Company for their pro-rata proportions of the subsidiary shares.

Of course, this proceeding changed neither the ownership nor the control of the four gas companies; for the receipt holders continued to give their proxies carrying the management to the same experienced men as before. There was, however, one marked effect—the casting of a cloud of doubt over all corporate acts of the four companies; so that it became impossible to raise funds for the extensions of the gas plants demanded by the rapid growth of the great city. The

gas business was good, profits were made and bond interest was paid: yet new bonds and shares could not be marketed. Dividends were earned but not paid; net earnings going into extensions. The receipts for shares were a football on the Stock Exchange. Chicago politicians would "sell them short," then introduce a hostile bill or ordinance in Council or Legislature and get it into the papers, which would "bear" the market, and then "cover their shorts" at a profit. The situation was so impossible that I personally got out in disgust, resigned and sold my shares in 1890. Some years afterwards a large owner of the stocks, now dead, went to the Legislature for relief, and procured a special act legalizing the consolidation of the four gas companies under the old "People's" charter. It was rumored at that time, that the gang at Springfield, since known as "Bathroom" and "Jackpot" Boys, held up the man referred to for $200,000 in consideration of this legislation: but the act was sustained by the State Supreme Court, and the People's Gas-Light & Coke Company—the same old combination—is a legal and solid monopoly to-day, under the same old control.

Of course the gas business in Chicago remains open to all comers, and one or two attempts have been made to break into it since. The most important was the organizing of and procuring a franchise for the Ogden Gas Company by a group of powerful Democratic politicians. This franchise, however, carried the usual prohibition of selling out. Consequently, when it came to financing, the prospect of buying into a finish-fight, with great risk of total loss from destructive competition and no chance to sell out, was too terrifying for bankers; and the franchise owners, who were rich and nervy men, were forced to finance their project themselves, or abandon it. They finally did the former, built a small plant, laid pipes in a restricted territory, and commenced a fight, the details of which I do not remember, as I was then in Europe. The result was as before, rapid exhaustion, and a deal by which the People's Company leased the " Ogden " and guaranteed its bonds. It is still in operation, I believe, under control of the former.

Meantime, several ordinances reducing prices have been passed and accepted by the Company. The cost of gas has fallen as sales have risen under good management

and lowered prices. Good business judgment and some political pressure have marked the latter down to 85 cents per 1000. Yet gas prices are still useful in politics; and the main slogan in the last mayoralty campaign was "70 cent gas," and the Council demands that rate. The People's Company is now backed up against the wall dividing profit from loss, and has appealed to the Courts for protection against confiscatory regulation of its rates.

Several interesting lessons are to be learned from the Chicago Gas history, often to be repeated in these pages: the first, that in businesses like gas, or other manufacture requiring large investment in plant, the latter becomes a total loss, unless it can be kept in operation. The competition of a stronger concern is absolutely destructive of the entire investment. The finish of a fight between such concerns is then, almost invariably, an attempt at a sell-out or a combination initiated by the *weak,* and not by the strong. It is the last resort of those beaten in the struggle to save some portion of their investment; and is seldom a deliberate device of the strong for the robbery of the public. The only justification for taking in a *beaten* competi-

tor is that a salvage can be made upon its property; and that it can ofttimes be operated economically as part of a larger system. As a competitive factor it is already down and out.

Now it takes bold men and large investments to fight great old established industries. History shows, nevertheless, that both are forthcoming, provided the newcomer has two strings to his bow, viz.: that he can make good profits, if the Trust sustains prices, and lets him alone—or that he can sell out to the Trust at a good round "nuisance value," if the Trust can be goaded into a general price war. If we forbid a sell-out by law, take away his second string, and leave to the would-be competitor only the alternative of a destructive competition, we simply do our best to scare off competition, and generally succeed in doing so. Hence, the Sherman Law is to-day a powerful deterrent to competition.

A second lesson is that prices seldom go back to old high-levels after a price war, no matter if ended by combination. Volume of trade and low costs are always developed, low levels become familiar; and good business judgment recognizes that it would be a costly

mistake and cause heavy loss of profitable trade to return to ante-bellum figures. Moreover, the economies of consolidation and distribution usually enable the Trust to remain content with but small advances.

Finally—perhaps the most important lesson of the three—we see that though the "great State of Illinois" twenty years ago exercised its full power to dissolve combination and restore competition, under simple conditions and in a circumscribed territory, where execution of its mandates was comparatively easy, the attempt was a total failure.

The State could not under the Constitution forfeit the property of the Gas Trust stockholders in their shares; and so long as they held it, in the form of Trust Company's receipts, or any other form, they elected to manage its business the same trusted officers as before. Messrs. Billings and Brady have controlled Chicago Gas from the formation of the combination to the present moment; and they are first-class gas men, as energetic in developing the usefulness of that great property to that community, as well as to its owners, as if it had twenty competitors—politics to the contrary notwithstanding.

V

THE TYPEWRITER TRUST. COMPETITION IN QUALITY AND SERVICE AS WELL AS PRICE

My last personal contact with a Trust was from the outside, as an independent bucking a combination. My experience on the inside had disgusted me with the helpless position of uncertainty, yet of responsibility, in which politics places those active in quasi-public business. I fairly longed to get into some open competitive field, where I could call my soul my own, and tell people to go to my competitors or to the devil if my ways did not suit. My evil genius pitched me, rather unexpectedly, over head and ears into a *man's* competition, the typewriter trade, then dominated absolutely by the Union Typewriter Company, known as the Typewriter Trust.

This was one of the early Wall Street "combines," formed, it was said, with the intention on the part of the leading members of unloading their holdings on to the market;

if so, the game did not work well. Some time about 1892 the five leading typewriters, Remington, Smith-Premier, Yost, Densmore and Caligraph, got together under Remington control, and remained so. The capital of the combination was twenty millions—several times the investment in the five concerns—and its policy was to keep all five factories going, with but three selling organizations, one each for the Remington and Smith-Premier, and a third for the Yost, Densmore and Caligraph; the salesmen of this last to offer all three machines at the same price, \$100.00, the buyer to take his choice. No \$100.00 machine had been left out of the combination, though it excluded several machines listed at \$85.00 down to \$35.00.

The typewriter trade is a world trade; freights and duties being so inconsiderable that it is cheaper to pay them than to manufacture at many points. Patents have long since expired, but mechanical difficulties are enormous, requiring years of evolution and hundreds of thousands of dollars to produce machines which will stand the grueling test of worldwide use. The different languages, typography and stationery of so many different countries, the pref-

erences of different markets for different finish and different keyboards, cause an endless and costly diversification of product, and heavy stocks of machines are carried at distributing points. Second-hand machines must be taken in trade for new ones, and resold; single machines must be sold to girls (who prefer the machine they learned on) on monthly payments; great orders must be captured from governments and corporations. Foreign and domestic agencies must be erected, patent laws, trademarks, and exchanges must be understood; credits must be made and financing soundly done. In short, there is no difficulty known to commerce, which is not present in acute form in the typewriter competition; and out of some one hundred and fifty machines launched upon the market prior to 1900, the few successes might be counted almost on the fingers of one hand.

"Here," doubtless thought the bankers who floated the Union Typewriter Company, "is a field where the power of combination must be invulnerable. No newcomer can make head against the great resources, the established names, the important patents (then alive), the worldwide organization, the

high paid experts in every department, the tremendous prestige of the successful pioneers, in a channel of trade so piled up with the wrecks of competitors."

What was the result? The fools were not all dead, as I well know, and a lot of us rushed in where wiser men feared to tread. My concern, by cutting prices, got along fairly well against the Trust; but two new concerns, the "Oliver" and "Underwood," trusting to the novel feature of visible writing, after a few stiff years' introductory fighting, shot ahead and developed formidable competition. Then Smith, a powerful member of the Trust, seeing the *visible* handwriting on the wall, deserted it, sold out and put several millions of his gains into a new visible-writer of his own, which is now an important factor in the trade.

The Trust battled bravely, brought out "visibles," used its weaker machines to cut prices for a while, then finding them a dead load, threw them (the Caligraph and Densmore) bodily overboard, cleared the decks and is to-day fighting vigorously and fairly successfully against domestic and foreign competitors as powerful as itself, and too numerous to mention, for its share of the world's

high-grade trade; which is now perhaps 25 or 30 per cent of the output. Originally it controlled the whole.

The weaker members of the Trust, owners of Yost, Densmore and Caligraph machines, by going in undoubtedly saved some part of their investment, perhaps all of it: Smith too made money by selling out; but the Remington, then and now the backbone of the concern, had for years to carry the dead weight of over-capitalization and profitless factories. It has been strong enough to pull through; but its owners would have been far richer men, if they had gone alone on their independent fighting way. Their greatest competitor, the Underwood, has never done anything else; and now, on far smaller original investment, pays dividends on values nearly up to those of the Trust.

So much for the men who formed this combination. Their bankers probably made a 5 or 10 per cent commission for financing the deal. Those who bought the shares are getting full dividends upon ten millions of preferred stock—the ten millions common stock at present going without dividends, I believe.

The effect upon the price of typewriters

to the public was nominal and ephemeral; but quality and service are far better than of old. The competition has been *there*.

The lesson of the typewriter combination is that prices are often a subordinate factor in capturing trade—the dominating advantages in selling typewriters having always been quality, mechanical advantages, good deliveries, repair service and salesmanship.

Monopoly was brief, and conferred no advantage while it lasted.

VI

OF THE STEEL AND SUGAR TRUSTS. SIZE ALONE NOT PROOF AGAINST COMPETITION

THE Steel Trust is so over-discussed just now, that I refer to it but briefly to bring out one or two points worth noting. It was formed, as everyone now knows, to buy out Andrew Carnegie and avert his possibly destructive competition.

The Carnegie Steel Company was no accident. Away back in 1875, Andrew Carnegie and his brother Thomas, and the latter's family, came to Marquette, Mich., for the summer months, and to buy some Lake Superior iron ore properties. They put up at the old Northwestern Hotel, down by the Lake, where I then boarded; and I became well acquainted with them all. One evening after supper we sat out on the veranda, watching the sunset and shadows steal across the glassy waters of Marquette Bay; and Andrew Carnegie, in expansive mood, talked with enthusiasm of his business and its future.

"We started," he said, "in the early '60s, my brother and I, and bought our first mill, paying $10,000 down. There were four more annual payments to make of $10,000 each, but the gold premiums due to the war virtually paid them; for there were no 'gold clauses' in purchase contracts when ours was drawn. So we were lucky from the start. We made money fast, and went on from one enterprise to another, till now we have our coke and flux and local ores, our blast furnaces, merchant mill, special-shapes mill, bridge and Bessemer works. This summer we are adding our Lake ores; next must come Lake ore-carrying vessels, and then, perhaps, a railroad from Lake Erie to Pittsburgh. Later we must build a plate mill to use our surplus billets, and a wire mill to draw our crop-ends. That will give us a complete well rounded plant, from the raw material in the bowels of the earth to the completed bridge high in the air."

"The iron trade," he went on—people did not talk much of the steel trade then—"is very broad, and subject to great fluctuations. In bad times it is cut pretty nearly in two. But it is always big enough for the man who can manufacture cheapest. He can al-

ways add his profit to his cost, and that sum, no less, will be the market price. There will be room too for the next cheapest manufacturer, and the next. But above them somewhere costs will exceed prices, and works must shut down in bad times, or fail. Yet the man who has and keeps the 'underhold' will always run full, always make money and always grow.

"Now Pittsburgh is the point of cheapest manufacture in the iron trade, and we can manufacture cheaper than anyone there; except perhaps Jones & Laughlin, and certainly as cheaply as they. All we need then is to retain our present advantage. We must keep our properties up-to-date, *adopt all improvements first, make prices that will take the trade, and keep running full,* no matter what the others do. That has been our plan so far, and it has in these few years given us properties worth, at a reasonable valuation, fully $2,500,000."

I was much impressed; and the talk remained imprinted on my memory. It has been most interesting all these years to watch the masterly way in which Mr. Carnegie followed out the foregoing clean-cut and simple plan: though it would probably have

staggered even his imagination had it occurred to me that evening to predict that it would in little more than twenty-five years after carry the Carnegie properties, so proudly valued at $2,500,000, to actual sale at $425,000,000.

I tell this tale for its human interest, and to bring out the point that Big Business is the offspring, not so much of combination, as of ruthless competition. Until Carnegie sold out to the Steel Corporation he was always a free lance. That was what plagued his competitors. They used to complain in Pittsburgh, that when prices were high and not enough steel to go around, Carnegie would join the steel beam pool, and maintain prices; but when trade was dull and orders were scarce, he would cut loose from the pool and *take* them; that when everyone else was fighting union wage scales—this was before the Homestead strike—Carnegie would cut loose and sign them. In short he never sacrificed his underhold to any "entangling alliances"; and his business grew so fast and huge that his profits for the year before the formation of the Steel Corporation reached the colossal sum of $41,000,000.

Consequently, when Mr. Morgan's Federal Steel Company, made up of the Vermilion Iron Mines, the Illinois Steel Company, the National Tube Works Company, and other units, each of which was weaker than Carnegie's, broke with the latter and commenced building a plant to make, instead of buying, its steel billets; and when Carnegie retaliated by commencing a great tube works, it looked as though the traditional "irresistible force" was to "strike the immovable body," with the disastrous result which no scientist has been able precisely to forecast. To avoid such a veritable cataclysm in the steel trade, the great Steel Corporation was formed and the Carnegie interests acquired, mainly paid for in first mortgage bonds. Kindred corporations were taken in at the same time, paid for in stock, enough to bring up the entire value of the combined properties to double the amount of Carnegie's mortgage and thus secure the latter amply. At least, so Mr. Carnegie told me some years later.

Here, as in the Chicago Gas "Combine," the weaker parties in competition had to buy out the stronger, in order thoroughly to protect their own investment; and then to combine the whole. Also, as in the Gas

case, but for the machinery of the Stock Exchange, no combination would have been attempted or indeed have been possible. No vendors would have dared to put in their great properties for millions of mere stock, even at the inflated valuations proposed, unless there had been some prospect of a ready market for the shares. The majority of the vendors to the Steel Corporation probably intended to sell their shares as fast as possible, and many of them did. In anticipation of this, Mr. Morgan's masterly flotation included, as a first move, the formation of an underwriting syndicate of two hundred million dollars subscribed capital, of which twenty-five millions was called in at once. Armed with this reserve of cash and credit, he is said to have employed James R. Keene, the master manipulator of his time, to "make the shares active" and mark up their price upon the New York Stock Exchange. The most remarkable group of capitalists ever brought together lent their names as Directors and their means as underwriters. The whole country went to "trading" in the shares, as they rose and rose under Keene's market generalship; and ever since they have been, as it were, the great open sea in specu-

lation, whose price levels mark the ebb and flow of all trade, and upon whose deep and ample bosom the craft of the speculator, large or small, can ride out the gales of finance, without fear of the reefs and shoals of the stock market that lie always close under the lee, in narrower issues.

As everyone knows, the Steel Corporation has been managed for the most part with extraordinary breadth and skill. It was freely prophesied at first by the wise men in the trade that, having bought out most of the brainy men who had built up its constituent units, it would fall to pieces of its own bulk and weight. On the contrary, its present organization, largely of new men, is wonderfully effective. But it is handicapped by its very size. Its capitalization is so huge, and its trade so great, that though entirely able to do business at starvation prices it cannot afford to do so. As I write, for instance (December 5, 1911), it is more than doubtful whether it is earning dividends on its common stock, at present low-record prices. It has averaged at the prices which have heretofore prevailed a profit of about 15 per cent on its gross turnover; too large a profit for security. Competition must develop and increase, as it

has already done, it seems to me. Though abundantly able to smash its weaker competitors by cutting prices, yet for the sake of its common stock dividends, and also probably for political reasons, it has not dared, until now, to do so. Consequently it has for years held up the umbrella of moderately remunerative steady prices, over its competitors and customers alike, minimizing both the extremes of rise and fall. This steadying of price has been immensely profitable to the Corporation itself, but yet more so to its constantly more numerous and powerful competitions. Jones & Laughlin, Cambria, Lackawanna, Bethlehem, Republic and other big concerns, have increased their trade far faster than has the Steel Corporation; so that, though it also has greatly grown, its proportion of the trade is steadily decreasing.

Of late the Independents have crowded the Corporation out from under its own price umbrella, which it has consequently closed, and all are out in the wet; a metaphorical way of saying that the Trust has stopped maintaining prices, while the others got the business, and is now out after its share of the orders at cut prices, with excel-

lent results to itself and the trade. If the Independents were not so big, it would now be in order for them, like the Independent Tobacco men, to set up a howl that Congress must lay the heavy hand of Government upon the Steel magnates and stop their infernal price-cutting.

Meantime we hear no more of the much denounced "Gary Dinners."

Such are the results at home. Abroad, if we may believe an English authority, who writes in the December, 1911, *Atlantic Monthly,* ("A British View of the United States Steel Corporation," T. Good), its over-capitalization and consequent enforced high wages and manufacturing costs have shut it and the United States generally out of the foreign market for steel, which has gone to English and German manufacturers, as shown by the following table:

Tonnage of Steel Shipped to Other Countries:

	United States	England	Germany
1900	1,154,000	3,213,000	838,000
1910	1,535,000	4,594,000	4,868,000

Mr. Good points to our successful start upon invasion of foreign markets in 1898 as an indication of what might have been done later but for the Steel Trust, and says that cost of pig iron and rails in the United States was far below foreign cost in 1898, but since has risen from $5.00 to $8.00 per ton here, while substantially unchanged there. Consequently, he says, with idle capacity here, nearly sufficient to supply the whole foreign demand, we take but an eighth of it; and he prophesies that the Trust will not be able to earn its common stock dividends.

Well, we shall see. Costs are said to be, still, as low or lower here than abroad, and the Trust is again aggressively after export trade. Prices, too, are said to be lower here than abroad, so that it is not necessary to sell there cheaper than at home; a process always provoking political attacks on our tariff-protected Trusts. The time seems ripe to drop protection like a worn-out garment, and leave our husky steel industry to take care of itself at home and abroad. The volume of trade resulting to the Steel Corporation would, I imagine, take care of its common dividends, even at the low prices for metal necessarily thereby established for

all time. For the common shares are no longer "water" but have been thickened up with undivided earnings, and boiled down by concentration of enormous resources, into a good substantial porridge, useful to sustain financial and industrial life.

The moral of the story of this Trust, the greatest of all corporations, is that great size instead of being proof against competition merely demands and develops a larger scale of warfare; that inflated capitalization cannot command inflated prices, but on the contrary is a heavy handicap in price warfare, being necessarily and at all times a temptation to hold up the umbrella of artificially high prices, to the holder's own detriment and the benefit of competitors.

Let us also consider how the Sugar Trust, which never was much over-capitalized, and is not at all now, though it is a huge corporation, demonstrates as clearly as the Steel Trust the fact that mere size cannot scare away competition. Professor Vogt's exhaustive monograph "The Sugar Refining Industry in the United States" (University of Pennsylvania publication, 1907), is in itself a liberal education on the "Trust Problem." To summarize "Sugar" history in a few

words, it was formed in 1887—after thirty years of destructive competition had reduced the number of refineries in the United States from sixty to twenty-three, by combining eighteen of the latter, leaving five independent; capitalization $45,000,000; stockholders but twenty-seven in number. Prior to combination the destructive competition aforesaid had reduced the difference between the market prices of raw and refined sugar, which in the early days of the industry had been twenty cents a pound, to 0.685 of one cent.

By 1889, the Trust had raised this difference to 1.252 of one cent, the actual cost of refining and distributing sugar, according to Professor Vogt, being, say, 0.625 of a cent. Under the stimulus of the resulting profit, by 1890, two big new modern competing plants had been built, and with the five independent plants made hot competition, until the differential dropped to 0.706 of a cent, and the Trust's share of the trade fell to 66 per cent.

The Trust then doubled its capital and took in all but two competitors; and these two stopped cutting prices. The differential went up again by 1893 to 1.153 cents. Again by 1895 four new competing plants had

been built, and a fifth sold to the Trust; in 1896 Arbuckle built a sixth, and in 1897 Doscher built a seventh. The differential dropped to 0.50 of a cent, and once even to 0.34; both figures being far below cost.

This was too drastic for everybody, but no further absorption of competitors resulted. The game of combination had been played out; and since that time merely a cessation of hostilities, called by Mr. Arbuckle an "armed neutrality," has prevailed, under which sugar brokers tell me that there is no fierce competition. Yet Arbuckles, Spreckels and three other large refiners are independent, and the "Segal" and another new refinery erelong will enter the market. The differential has averaged since the last advance in the tariff (1897) only about 0.80 of one cent a pound, of which the cost of refining and distribution has absorbed say 0.62, leaving the minute profit of 0.18 of one cent per pound, upon an average wholesale price of 5.33 cents—or less than 4 per cent upon gross turn-over. Surely no reasonable person, despite certain contemptible and extraordinarily petty frauds on the part of the Trust, can say that, broadly speaking, the public has been greatly robbed, or the cost

of living extraordinarily enhanced by the operations of this combination, however selfishly managed.

Professor Vogt's conclusions of 1907, which my inquiries among sugar brokers confirm as valid to-day, are as follows: "The possibility of absolute control (by the Trust) in either beet or cane raw sugar is still remote"; also: "So far the Trust has not been able to levy an excessive tax upon the public; but has been able to secure for itself a constant margin of profit and to prevent cut-throat competition."

Professor Vogt shows that the reduction in the tariff on raw sugar in 1890, under the McKinley Bill, was followed by a drop in price of refined sugar of 1½ cents per pound and by an immense increase in consumption. The tariff on raw sugar, imposed to develop the domestic Beet Sugar industry—and incidentally a combination therein, now controlled by the Sugar Trust, though not a monopoly—was restored again in 1897 to the present figure of 1.9 cents per pound; which operates as usual to shut out the foreigner and make things easier for the domestic combination.

But let me end this long chapter. Neither

Steel nor Sugar Trust has established a domestic monopoly, or long held off competition. Just now a lot of big independent competitors are in evidence in each trade; and the game of combination is played out. There is an open price war on in the steel trade, and an "armed neutrality" in the sugar trade; with the tariff stilts likely to be knocked out from under both trades at any time. Both great concerns are now fighting organizations—true battleships—able to hold their own against the world, tariff or no tariff; and are in my judgment on the threshold of their greatest prosperity and usefulness. For events far stronger than the Sherman Law have rung down for them the curtain upon that unpopular play, "Monopoly."

VII

OF STOCK EXCHANGE TRUSTS. OVER-CAPITALIZATION

THE earlier "Trusts," like Standard Oil and Sugar, were really such, and "trusteed" their property so as to secure community of interest and action between owners of formerly competing plants; who apparently did not plan to sell out, but to remain interested actively in all the plants instead of but one. Some form of evidence of ownership was necessary just the same, in aggregating such large values, and it took the form of Trustees' Receipts for equal parts or shares in the consolidated properties, generally like ordinary shares of stock of $100 par value each. These Receipts were made for convenience transferable by indorsement; and it was not long before they found their way into the open markets, on the "Curb" and on the Stock Exchanges.

For some time banks and investors were shy of them; but as confidence grew in the

stability and dividend-paying power of the early Trusts, this shyness disappeared, and it dawned on Wall Street that here was an opportunity as great as that of the era of Railroad building had been, for new flotations of stocks and bonds made—not to keep, like "Standard Oil" and "Sugar"—but to sell to the public, like "Cordage" and "Shipbuilding."

A veritable epidemic of Trust flotation possessed the bankers and promoters of the country from 1898 to 1903; and even before 1898 many Trusts were formed mainly for Stock Exchange manipulation and the ample bankers' commissions involved. A great many of these, over-capitalized, inherently unsound and badly managed, promptly went to smash. Others were presently reorganized, scaled down, survived and became moderately successful. Moody's "The Truth about the Trusts" lists thirty-five such failures, capitalized at 683 million dollars, and thirteen more in process of reorganization, capitalized at 528 million dollars. (The book appeared in 1904). A few examples of these Stock Exchange Trusts will suffice as illustrations of the fact that mere combination does not do away with the inevitable laws of economics.

The "White Lead Trust" was formed in the late '80s, heavily over-capitalized at 90 million dollars, and controlling 80 to 90 per cent of the then manufacturing capacity of the United States. A few strong concerns remained sturdily independent; as strong concerns are apt to do. Their competition and that of promptly built new plants riddled that trade, and the shares of the Trust dropped to 25 cents on the dollar, or less. Then it was reorganized (by some of the "Standard Oil crowd," who bought in at these low prices) into a corporation, the National Lead Company, capitalized at only 30 million dollars, half preferred and half common shares. Prices of lead were then moderately advanced.

By 1903, so much had new competition increased, that a second combination called the United Lead Company, and a Linseed Oil combination besides, were formed; and the control of both was sold to the Lead Trust, which for the purchase increased its stock to $45,000,000.

Again new competition has developed. Further combination will not go; and to-day there are independent plants in nine large cities, and the Trust controls but 60 per

cent of the total capacity. It still holds its leading position, but rather by the ownership of old established brands, by diversifying its products, and by extensive selling facilities and good service, than by any attempt at monopolistic methods. Its tariff-protection prohibits competition from abroad, and is about double the difference between domestic and foreign costs, consisting mainly of the protective tariff on the metal lead. If lead and white lead were put on the free list, the price of the latter would fall from about six to, say, five cents per pound; and the American manufacturers would probably still do most of the business. The attempt to monopolize by combination has utterly failed in this industry. The National Lead Company is now a sound healthy competitive concern, paying 7 per cent on its preferred shares, and a small dividend on its common shares, which sell (November 4, 1911) around 45. These are reasonable dividends on its real capital; and the stock market has squeezed the "water" out of its original 90 million dollar valuation. Prices of white lead are in low equilibrium.

The American Can Company was formed by the Moore Bros. in 1901, with an inflated

capital of 82 million dollars. It took in about 90 per cent of the tin can manufacturing capacity of the United States. Its promoters had been successful Trust builders in other industries; but for some reason, perhaps because cans seem very hollow affairs, this Trust did not sell well in the stock market, and its promoters were unable to unload their stock (so it was said) on the public or on the Steel Corporation. At any rate they have remained in control of it ever since. Competition vast and various promptly sprang up; prices were cut and profits went glimmering. The shares were slaughtered in the market for several years.

The Moores sat tight, however—perhaps they could do nothing else—put in good management, dismantled a lot of inferior plants, enlarged the best and most favorably situated, stopped dividends and entered the competition vigorously. After some years of thus "taking its medicine" this Trust, too, is now sound and healthy. It has, for several years, paid a preferred dividend of 5 per cent; but dividends on the common shares are still distant. They sell (November 4, 1911) at about 10 cents on the dollar.

Competition, not combination, is restoring this sick Trust to health.

The International Mercantile Marine Company was formed by the great Morgan house in 1902, with total issues of 179 million dollars of stocks and bonds. It bought several of the greatest trans-oceanic steamship lines—and made traffic agreements with other great German, French and English Companies that remained outside the "combine." It controlled enormously valuable terminals and railway connections on both sides of the Atlantic, was managed by experienced men grown gray in the service of the constituent concerns and proposed great economies in the getting and routing of business.

But it is said to have paid too dear for the companies bought; the ocean is too free for its competitors of all nations; our protective tariff and navigation laws heavily handicap the purchase and operation of vessels under the American flag, while the governments of foreign countries back their own lines with subsidies. For these reasons, or others which I am too ignorant to give, this Trust is as yet unsuccessful, riddled by competition and unable to do much more than

meet interest on its debts. Dividends on its preferred and common shares are painfully invisible, and they sell (November 4, 1911) at 14 and 4, respectively, giving an aggregate market value of but 9 million dollars for 102 millions par value of shares. So far, even the constructive genius of a Morgan has not been able to rehabilitate the Mercantile Marine Company, though I have confidence that brighter days for it will sometime come.

These three unfortunate ventures do not stand alone. Moody lists, as far back as 1904, no less than forty-eight unsuccessful trusts capitalized at 1132 millions of dollars. I single out the above for illustration here, because they were the confections of the Morgan, Standard Oil and Moore parties, one or other—that is, of men of powerful constructive influence and ability, dominant in the so-called Money Trust; and because it is the fashion to say that these particular men and a few others literally carry the United States in their breeches pockets, and with their enormous power will set aside the course of trade, reverse all economics, make water run up hill, and the like—unless Congress shall re-enact the once eternal laws of gravity, supply and demand, etc., and bid the world

rely for their enforcement on a mixed commission of politicians and reformers.

Bosh! The fact is—and no candid man, who opens his eyes to the selfish and hard-hearted quotations of the New York Stock Exchange, can blink that fact—that every attempt to evade the inexorable law of the survival of the fittest, by combining the unfit together with the fit, has merely loaded the former on the back of the latter, and weighed down the whole, as Sindbad the Sailor was weighed down by the Old Man of the Sea. In the long run—not so very long either—the burden has *had* to be thrown down, the unfit has *had* to be sloughed off and the fit only retained. For this reformation neither passion nor panic has been needed, nor the wrath of Gods and men, nor the might of the people, nor Congress, nor even Mr. La Follette; nothing but the quiet action of the laws of trade—and a swing or two of the scythe of Father Time.

VIII

OF TRUSTS OF OVER TWENTY MILLIONS' CAPITAL

ILLUSTRATIONS like the foregoing could be multiplied five hundred times, were there space and need to do so. Let us pass on to such totals as are easily available.

The most complete review of the concerns under consideration, Moody's "The Truth about the Trusts," dates back to 1904. Since then the Wall Street industry of grinding out Trust securities has received a severe setback by the depressions of 1904 and 1907, by the failures of so many Trusts organized for Stock Exchange purposes and by growing dread of the Sherman Law, resulting from the "Roosevelt policies." I will not take the time to retabulate and bring down to date Moody's totals. Popular attention and denunciation have been centered on but a few of the biggest Trusts and the richest magnates. Readers will probably agree with me that the case against the whales of monopoly is at least as strong

as that against its minnows. I will therefore tabulate only some fifty-three big concerns—being approximately all those capitalized above 20 million dollars—and will assume that the average of success, failure, earnings and profits, of these big fellows may be taken as fairly representing those of the whole of Big Business in corporate form.

I have divided the concerns tabulated roughly into four classes. Class 1, Corporations that pay interest on bonds and full dividends on both preferred and common stock; great successes. Class 2, Corporations that pay interest on bonds, full dividends on preferred, and part dividends on common stocks; moderate successes. Class 3, Corporations that pay bond interest, but barely pay dividends on preferred stocks only; possibly moderate successes in course of time. Class 4, Corporations that pay interest on bonds perhaps, but offer no prospect of dividends even on preferred stocks; nonsuccesses.

Besides these, there might be made a fifth class, of Corporations above 20 millions capital, which have broken, and become defunct; total failures.

As the best measure of the achievement

to date of these concerns, I have tabulated their entire issues of stocks and bonds, and the market values November 4, 1911, of their common stocks; for the reason that, in capitalizing these combinations, Wall Street has found by experience that to make them salable, bonds must be limited in amount to half the value of the property underlying them, and preferred stocks to the value of tangible property in excess of bonds. All other or intangible property, such as good will, trademarks, patents, contracts, and expectation of profits by reason of combination, have therefore been represented in capitalization only by common stock. Such "watering" as has been done is in this class of shares: so it may safely be said that the success or failure of the average Trust may be judged from the market price of its common stock. This price tends to approach par, as the earnings applicable to dividends on common shares approach 7 per cent thereon.

The common stocks of the Railway Companies were largely "water" when issued years ago, though they now represent solid property paid for by the undivided earnings of many years. It is often said, therefore, that the industrial common stocks are all

"water," too. On the contrary, a very large amount of them were paid for in cash, as for instance "Bell Telephone" or "Pullman"; or in property worth more than the shares, as "Harvester." At a rough guess I should say that half of all the industrial common shares, and all of the preferred shares and bonds, represented good property when issued.

It is evident from the tables and summary that, but for the extraordinary success of the 19 Trusts of the first class, the average success of the whole 53 would be nothing to cause insomnia to the average voter. If he could but take his jaundiced eye off Rockefeller and Duke and Havemeyer for a space, perhaps he might yet sleep while it is night, and by daylight look calmly at the whole modern industrial situation. Here it is, at any rate, as it appears to me.

CLASS 1

"TRUSTS" Capitalized Above 20 Millions, Whose Common Stocks Pay Well

NAME		Date	Securities Outstanding (in millions)		Market Value Com. Stock (in millions) Nov. 4, 1911	Competition in U. S.		Protection	
			Total Bonds and Stocks	Common Stock		Dom.	For.	Tariff	Patent and T. M.
Am. Sugar Ref.		1887	$90	$45	$52	Mod.	None	Large	None
Am. Tobacco		1890	224	40	169	Small	Cons.	Large	Large
Standard Oil		1870	98	98	627	Small	None	None	Small
Intl. Harvester		1902	140	80	84	None	None	Large	Cons.
Dupont Powder		Old	60	29	42	Small	None	Large	Large
United Shoe		1899	21	11	18	Small	None	Large	Large
Armour	Beef Trust	1870	50	20	(say) 50	Large	None	Large	None
Swift	Beef Trust	1885	80	75	76	Large	None	Large	None
Natl. Packing	Beef Trust	—	Owned by Armour, Swift and Morris						
Morris	Beef Trust	1859	15	3	(say) 10	Large	None	Large	None
Pullman		1867	120	120	187	None	None	Large	Small
Gen. Electric	Electric Trust	1892	80	65	96	Mod.	None	Large	Large
Westinghouse	Electric Trust	1893	46	24	30	Mod.	None	Large	Large
Bell Telephone		1878	430	330	442	Mod.	None	Large	Small
Western Electric		1881	30	15	33	Mod.	None	Large	Small
Union Oil Calif.		1890	43	30	(say) 52	Large	None	None	None
Phelps Dodge		—	45	45	(say) 85	Large	None	None	None
Royal Baking Powder		1899	20	10	19	Mod.	None	Large	Large
Natl. Biscuit		1898	55	29	36	Mod.	None	Mod.	Large
Genl. Chemical		1899	21	7	9	Cons.	Cons.	Mod.	Mod.
			1,668	1,076	2,117				

CLASS 2

"TRUSTS" CAPITALIZED ABOVE 20 MILLIONS, WHOSE COMMON STOCKS DO, OR MAY, PAY SMALL DIVIDENDS

NAME	Date	Securities Outstand ing (in millions)		Market Value Com. Stock (in millions) Nov. 4, 1911	Competition in U. S.		Protection	
		Total Bonds and Stocks	Common Stock		Dom.	For.	Tariff	Patent and T. M.
Am. Smelting and Ref.	1889	$100	$100	$61	Mod.	None	None	None
Amal. Copper..........	1889	154	154	81	Large	None	None	None
U. S. Steel Cor.........	1902	1,464	508	279	Large	None	Large	Small
Natl. Lead.............	1891	45	21	9	Large	None	Large	Cons.
Am. Cotton Oil	1889	35	20	9	Large	None	Mod.	Cons.
Am. Angl. Chem'l	1889	36	20	10	Large	Mod.	None	Small
Va. Car................	1895	57	18	8	Large	Mod.	None	Small
Am. Car and Fdry......	1899	60	30	14	Large	None	Large	Mod.
H. W. Refractories.....	1902	28	18	8	Large	None	Large	Small
Un. Typewriter	1893	18	10	4	Large	None	Large	Large
U. S. Rubber...........	1892	94	24	10	Large	None	Large	Small
Genl. Asphalt..........	1903	31	17	6	Large	Large	None	None
Assoc. Oil..............	1901	49	40	20	Large	None	None	None
Dist. Sec. (Whiskey)...	1902	46	31	9	Large	Mod.	Large	Cons.
Western Un. Tel.......	1851	130	100	78	Mod.	None	None	None
		2,347	1,111	606				

CLASS 3

"TRUSTS" CAPITALIZED ABOVE 20 MILLIONS, WHOSE COMMON STOCKS HAVE NO PROSPECT OF DIVIDENDS

NAME	Date	Securities Outstanding (in millions)		Market Value Com. Stock (in millions) Nov. 4, 1911	Competition in U. S.		Protection	
		Total Bonds and Stocks	Common Stock		Dom.	For.	Tariff	Patent and T. M.
Amer. Can............	1901	$82	$41	$4	Large	None	Large	Small
Amer. Locomotive.....	1901	50	25	6	Large	None	Large	Small
Amer. Woolen	1899	70	29	7	Large	None	Large	Small
Corn Products.........	1902	88	49	5	Large	None	Mod.	Mod.
Intl. Steam Pump......	1899	31	18	4	Mod.	None	Mod.	Mod.
Nat. Enam. and Stamp.	1899	24	15	2	Large	None	Mod.	Small
Cen. Leather...........	1893	110	73	15	Large	None	Large	Small
Col. Fuel and Iron.....	1892	76	34	9	Large	None	Large	None
		531	284	52				

CLASS 4

"TRUSTS" Capitalized Above 20 Millions, Whose Stocks Have Only Nominal Value

NAME	Date	Securities Outstanding (in millions) Total Bonds and Stocks	Pfd. & Com. Stocks	Market Value (in millions) of Com. Stock	Competition in U. S. Dom.	For.	Tariff Protection
Intl. Merc. Marine	1902	$179	$50	$2.	None	Large	None
Allis Chalmers	1901	48	20	0.6	Large	None	Large
Amer. Hide and Leather	1899	30	11	0.4	Large	None	Mod.
Amer. Writing Paper	1899	36	10	0.2	Large	None	Mod.
Intl. Paper	1898	53	17	1.7	Large	None	Mod.
Un. Bag and Paper	1899	30	16	.8	Large	None	Mod.
U. S. Cast Iron Pipe	1899	25	12	1.4	Large	None	Large
Amer. Malting	1899	31	13	0.5	Large	Small	Large
Untd. Box Board	1902	20	15	0.3	Large	None	Large
Intl. Salt	1902	24	18	0.2	Large	None	Cons.
Southern Iron and Steel	1902	24	9	0.1	Large	None	Large
		500	191	8.2			

SUMMARY OF FOREGOING, NOV. 4, 1911

	Trusts	Total Bonds and Stocks	Stocks Par Value	Com. Stock Market Value
Class 1	19	$1,668	$1,076	$2,117
Class 2	15	2,347	1,111	606
Class 3	8	531	284	52
Class 4	11	500	191	8
	53	5,046	2,662	2,783

IX

OF BIG BUSINESS AS A WHOLE. ITS COST AND VALUE TO THE COMMUNITY

THE foregoing tables include, as I have said, most of the concerns having 20 millions or more of outstanding securities. It is not worth while for this mere outline of so large a subject to make the laborious search of old records necessary for absolute completeness and accuracy. The figures above given are from the *Financial Chronicle* (of November 4, 1911), a recognized authority in Wall Street: and those which follow are from an equally reliable source, Poor's Manuals of Railroads and Industrials, for 1911. With them before us it is possible to get an approximate idea of how much Big Business costs the people; and how much of this cost is "Trust robbery," so called.

Poor's Manuals enumerate about 5700 steam and electric railroads, and 10,500 industrial corporations. Moody's "The Truth about the Trusts," 1904, enumerated 6 great

railroad systems; 10 lesser railroad systems, or independent groups of roads; 111 groups of franchise corporations; and 318 industrial Trusts; in all, 448 Trusts (as Moody called them) controlling 7664 different corporations. Probably Poor's compilation, which is later and larger, includes many organized since 1904, and probably also Moody's "groups," or "Trusts," still exist for the most part, and control 9000 or 10,000 of Poor's 16,200 corporations. These figures look formidable; but this is a big country! The number, capitalization, and 1910 earnings of them all were as follows: (Poor's Manual, 1911) 5700 roads stocked for 8381 millions and bonded for 10,510 millions, earned net 1,120 millions of dollars. 10,500 Industrials, stocked for 13,100 millions and bonded for 4397 millions earned (assuming the same rate of earnings for all of them as for about 40 per cent of their number that made complete returns to Poor, namely 6 2-3 per cent upon entire capitalization), net 1159 millions.

Total earnings, paid out in bond interest, dividends on stock, or held undivided, of the 16,200 corporations, say 2279 million dollars for 1910.

The 1910 Census enumerates some 92

million people in the United States, of whom (adopting the ratios of the 1900 Census) 35 million are gainfully employed bread-winners. Therefore, the entire cost of Big Business, for interest on capital, and profits divided and undivided, for 1910, was in round numbers $65.00 per annum per bread-winner. If we assume that of the 21,000 millions of *stock* issued by Big Business (beside bond issues) 10,000 millions still represent nothing but "water"—a large assumption and purely for the sake of argument—then 10-36ths or 28 per cent of the $65.00, i.e., $18.20 per annum per bread-winner, would be the so-called robbery perpetrated by high finance.

It is plain that neither of these sums, whether legitimate or robbery, is big enough to account for the rise in cost of living for which the Trusts are held responsible: for the 1911 Census shows an increase of average annual earnings of manufacturing wage-earners (which are, the report says, slightly *above* average cost of living), of from $426.00 to $578.00 or $92.00.* Furthermore, not the whole $65.00, or $18.20, can rightly be taken into account; but only the *increase* of this tax for capital and profits levied by Big

* Since 1900.

Business. The question must in fairness be raised, what would have been the earnings of the community, and what the tax for capital and profits, had there been no Big Business? Now there is abundant evidence to show that the cost of capital and financial profits to the community is constantly decreasing; and that per contra the earnings of the community are constantly increasing, by reason of Big Business. This I will consider in a later chapter, as unfortunately Poor's Manuals for 1900 do not contain such tabulations of corporate earnings as are found in issues of 1911; so that I cannot make here the direct comparisons which would naturally be expected.

X

THE FAILURE OF COMBINATION TO MONOPOLIZE

THE foregoing tables show how futile has been the attempt to monopolize the market, or control prices, by means of combination. Of the 50 biggest Trusts, of over 20 millions capital, only 3 have substantially no domestic competitors, and only 4 have but small ones; while 10 have moderate, 3 considerable and 33 have large domestic competition.

Of the 3 that have no competition, one—the Pullman Company—is rather a natural monopoly than a Trust; and most railroads retain its cars rather than run their own, for the convenience of the public in avoiding change of cars in passing from line to line, and for its ability to respond to emergency demand for equipment. Another, the Mercantile Marine Company, practically never had any domestic competition, because of our tariff and navigation laws, that limit us to coast-wise traffic, in practice. It has, of

course, only too much foreign competition. The third, the Harvester Company, has, I am told, as yet no serious domestic competition in the harvester line, but has in its other lines. Its management has been so efficient, its prices so kept down, its machines of such world-wide reputation, that no one has yet started up in serious competition. This comfortable situation is not likely to last, however; for its ratio of profit to gross turnover, some 16 per cent, is too tempting for so large an industry. Already it is said that the great Deere Plow concern of Moline, a foeman worthy of the Harvester Company's steel, will soon bring out harvesters of its own upon the market.

"Tobacco" and "Standard Oil" in the next class, ranked as of small competition, yet have competitors in considerable number, some of them of no mean size; and their number is increasing. Still, the volume of their trade is small relative to that of these big fellows. The competitors of the "Powder" and "Shoe Machinery" Trusts are both few in number and unimportant in size; these two concerns being of the very few that, by Trust methods as well as inherent advantages, have really controlled domestic

markets and prices. Yet there is talk of new shoe machinery from St. Louis; and it is within my knowledge that a very rich man, who died not long ago, had spent several hundred thousand dollars in creating a complete independent line of shoe machinery, which would have been in competition with the "United" but for his death, and still I believe impends upon the trade.

Except these seven, all the rest of the big Trusts meet from moderate to large competition; and neither maintain monopoly, nor depend upon it for their trade. They hold the latter, though not with ease, by moderate prices, usually superior quality, known brands, large facilities, good deliveries and credits, and strong organization.

As for the Lesser Trusts, among the long list of 298 named by Moody in 1904, outside of a few which are protected by unexpired patents or trademarks, I note to-day only the Express Companies, as free from substantial domestic competition.

Surely there is nothing in the results thus far actually attained by the Trusts sufficient to scare us all out of seven years' growth; or even out of reliance on old-fashioned economic law. As I write, Mr. Carnegie,

testifying at Washington in the Steel Trust investigation, says, "There is no competition in steel"; that "they can sit down and fix prices"; and that Government must name maximum figures to protect the people. Judge Gary, for his part, says Government must do the same, apparently to protect the Steel Corporation and its managers, as well as the people. I hesitate to doubt the judgment of two such authorities; yet the same daily papers (January 12, 1911) that quote Mr. Carnegie, note that "Independent Steel makers are resuming the price-cutting of last year," the same that put the Gary Dinner prices out of commission. I recall, too, how at different times the French "Secretan Syndicate" and the "Amalgamated Copper" crowd sought to control the price of copper, a metal no more universal than iron; and came to distinguished grief under the weight of the world's copper tumbled on their bank accounts.

Why not wait a bit, take off the tariffs, and see what the world will do with prices of steel and the like, before turning them over to a Commission at Washington? Suppose the Commission should fix them, and the world should not obey: what would the Com-

mission do about it? Probably what Canute did, when the tide ignored his royal command not to rise. *He* is said to have seen the joke on himself.

XI

OF THE TARIFF AND THE TRUSTS

Before the passage of the McKinley Bill, I was one day in a parlor car going out to Geneva Lake, where many of Chicago's *richissimes* have country places. Next me sat one of the brothers Norton, at that time perhaps the largest makers of tin cans for fruits, meats, etc. I said something to him about the proposed tariff upon tin-plate, and that I supposed he would have to join the fight against it to protect his business. "Not at all," he replied, "it suits me down to the ground. In the first place I have laid in a big stock of tin-plate; and in the next, I am going into the manufacture of tin-plate in this country." "But," I answered, "is not that dangerous? Here is a new business, involving large plant investment, put up in air by the Republican Party. Suppose the Democrats come back into power a few years hence, and knock the tariff out from under it. Will it not come down with the con-

ventional dull, sickening thud?" He reflected for a moment and then replied, "Perhaps yes. But that does not worry me. You see I am an inventor; as you know, I have gotten up all my own can machinery, and I put my wits and my experimental department at work some years ago on tin-plate. I have evolved a machine with which one American can do the work of seven Cornishmen in dipping tin, performing, mechanically, the successive operations done there by different hands. I can make tin-plate to-day as cheap as they can, despite excessive cost of labor and material; and whatever tariff protection I get will be so much 'velvet.' Of course I figured that all out long ago, before committing our firm to this venture."

This was in 1890. The McKinley Bill passed; Norton and many more built tin-plate mills, and "an American Industry was created." The price of tin-plate at Swansea (England) was then around $3.00 per box of 100 pounds: the duty had been $1.40 and was fixed at $1.00 for a year; after that at $2.20. The price at New York before the Bill passed was $4.36. It jumped to $5.30 at once, and remained around there for years, a figure so profitable that by 1898 nearly

300 domestic mills were making tin-plate, and fierce competition gradually drove the price down to $2.90. Then 95 per cent of the mills went into the Tin-plate Trust, capitalized at $46,000,000. In 1899 the price was $3.98, in 1900 it was $4.51, and by 1902 the Trust (the American Tin Plate Company) had been absorbed by the United States Steel Corporation in consideration of some $63,500,000 of its own shares! That Corporation has held the price fairly steady around $3.60 to $4.00 ever since. It is now about $3.60 at New York, as compared with $3.20 at Swansea—the duty now standing at $1.20. The net result is that we have always paid and still pay more for our tin-plate than the Britons do; we have one more industry and also one more Trust. The Steel Corporation, nevertheless, has now strong domestic competitors, and prices are not so very far above what they would be, were there no duty to pay on Swansea tin-plate.

Other nations are taking our nostrums, and will soon have our stomach-ache in consequence. In 1909 I sold the typewriter manufacturing plant above mentioned, and shipped it entire to an old and important French Company, which is now making that

typewriter in France. They promptly took me to the Minister of Commerce at Paris and asked me to tell him the rates of duty imposed by the United States and other countries upon typewriters. Thereupon the French Government at once imposed a duty about equal to 40 per cent ad valorem upon American and German machines, "to create a French industry." They have done it, certainly: and in a few years they may expect a *syndicat* in the new business, as other American and German companies open factories there. Meantime the French will pay more for typewriters.

Shutting out foreign competition by tariff walls seems, therefore, merely to facilitate the formation of Trusts. The difficult task of making them successful must certainly become more difficult the farther they try to spread out. At present, under our largely prohibitory tariffs, the situation of our 53 big Trusts is as follows:

45 have substantially no competition from abroad: 1 has but small, 3 have moderate, 2 have considerable, and 2 have large foreign competition in the home market.

Now, many of them are active and successful competitors in foreign markets, despite

high cost of wages and materials here, and the handicap of freight and foreign duties to pay. If they can fight thus successfully abroad, they certainly can at home—protection or no protection. The coming lowering of our tariff wall, will not, in my judgment, bankrupt many, if any, of our great industries; but it certainly will tend to reduce home prices, and to emphasize the fact that combination fails to monopolize.

XII

SPECIAL PRIVILEGE

In these insurgent days we hear much fervid oratory against "special privilege"; and when I first commenced this investigation, without having thought far in that particular direction, I rather took it for granted that the horns, hoofs and tail of the devil of special privilege would peep out from under the decent frock coat and silk hat of all Big Business. But now that I come to look for these devils, they are, like our old friend Satan, *imaginary* demons.

Let the reader look for himself at the Big Trusts of Classes 1 and 2, for instance, and say what single privilege any one of them enjoyed or now enjoys, that was not, at the beginning, open to everybody, except rights under patent and trademark laws, conferring monopoly, and tariffs shutting out foreign competition; all of which are in conformity with our settled public policy, for the promotion of invention, the protection of the

fruits of past industry, and the development of our domestic trade.

List No. 1 commences with the Sugar Trust. What special privilege did Havemeyer have that Arbuckle or Segal had not, or that you and I have not? The tariff to protect him against the foreign maker of sugar protects the others as well. They are equally free to buy beet sugar lands or Cuban plantations. His trademarks and process patents are rightfully his. What special privilege does he enjoy?

Next comes "Tobacco." The trade is open to all the world. When the Richmond Straight Cut factory started to advertise and introduce that brand of cigarette (now I believe one of the valued and lawful monopolies of the Trust) what special privilege did its owners enjoy? Was not everybody as free as they to put energy and money into making and advertising a cigarette? Is not everybody free to do so to-day? Does the Tariff protect Richmond Straight Cut more than any other cigarette? Are not other tobacco buyers as free to bid for the Tobacco farmers' crops as Duke and his associates?

Next comes Standard Oil. An old Lake Superior friend of mine twenty years ago

would sometimes recall memories of John D. Rockefeller, as a youth perched upon a stool in the office of Mr. Isaac L. Hewitt, of Cleveland, busily driving a bookkeeper's quill. What special privilege did that youth enjoy except those of hard work, thrift and the use of his abundant brain power? Was not everyone free to go into oil, and did not thousands do so, in those early days? "Yes, but how about those railroad rebates?" some one will say. Precisely the same was the lack of special privilege *there.* Everyone was after rebates in those days—and the man who shipped the most freight got them. The railroads did not rebate in order to throw business to Rockefeller; but because *he* could throw it to *them.* His competitors had the same opportunity, but did not have the same ability to produce freights for the railroads as Rockefeller did. "To him that hath shall be given," saith the Bible.

And so on all down the line. It has been our national policy to promote domestic industry by protective tariffs? Why should we denounce the Steel men in and out of the Trust, before and after it, for taking advantage of the law, or for boosting tariff rates, if high tariffs mean national prosperity?

It has been our national policy to promote invention by patent monopoly and to promote quality and reputation by laws protecting trademarks, trade names and the like. Why should we curse the Telephone Company or the Baking Powder Trust for successful activity under the law?

It was our policy to grant lands and even issue bonds, national and local, in aid of railroads. Why denounce the successors of Oakes Ames and Jay Cooke for taking the profit from the enormous risks which, forty years ago, they assumed in enterprises based upon wild lands and unhabited country?

Even yet it is our public policy to grant lands for schools, for homesteads, for timber culture, etc.; to *give away* mines of precious metals to the discoverers who first stake out their claims; to sell outright timber, coal and iron lands to those who first apply for them as government lands at the open government prices. What special privileges had Cunningham, Guggenheim or Morgan in Alaska; and why should they *not* have determined to accept for their own benefit the offers held open by government for the last fifteen or twenty years, precisely for the purpose of inducing the exploitation of Alaska?

I confess I have no sympathy or patience with those who call hard names so glibly. If the time has come when we are ready to do away with what has always seemed to me the pernicious doctrine of protection—if we have given away too much land already, and no longer believe in alienating forever the mines, water-powers, forests, etc., yet remaining the property of the people—by all means let us change our laws, devise a tariff for revenue only, lease our mines and forests, and conserve for the nation every resource it now possesses.

Furthermore, when fraud upon old-time law is shown, let us punish the *criminal,* the *man* who perpetrated it.

But I have small respect for the judgment, and less occasionally for the sincerity, of those who denounce a few men for having had the means, the foresight and the courage to accept and invest on a great scale in offers long before made by government to promote development; offers always open to all, and for years allowed to go begging, unaccepted.

What I have said here applies equally to public service franchises; which, freely offered at first in order to induce capital into quasi-public enterprise, are in a few short years

unlimitedly denounced as infamous procurements by dishonest men. The deep and bitter sense of injustice engendered in the hearts of public service corporation managers by such denunciations, is a potent cause of their submitting in helpless disgust to blackmail and bribery.

Advantage openly taken of existing law, advantage gained by priority, by large investment, by years of development, is *not* "special privilege"; nor worthy of denunciation because it exists. Certainly it is great; —but it is not therefore criminal.

XIII

OF THE SUCCESSFUL TRUSTS. CAUSES OF THEIR SUCCESS

TURNING to the summary of the bigger Trusts, we note again that but for the 19 successful ones of Class 1, the showing of the lot would be poor. Deducting that Class, the other three Classes total 34 Trusts, capitalized at 3378 million dollars in stocks and bonds, whose 1586 millions of common stock was worth at market values of November 4, 1911, but 666 millions. Their real capital, represented by bonds and preferred stocks, absorbs the lion's share of the returns, and the common stock gets meager dividends and sells at an average of 42 cents on the dollar.

Investigating the causes of success of the 19, they are patent enough. With perhaps one exception they are distinguished by relatively moderate capitalization; and all of them without exception exhibit sound financing, the ablest management, the most

modern and best situated properties, the highest efficiency. Each has also some particular advantage, as follows:

The Sugar and Beef Trusts from the first included no weaklings, but only the survivors of fierce competition. They are fighters still, though not within themselves: they are ready and fit for the fray against everyone else. That is their advantage.

The Tobacco, Harvester, Baking Powder, Biscuit, Dupont Powder, Standard Oil and Chemical Trusts likewise from the first included the stronger survivors of competition, with the fighting habit; further fortified by the ownership of favorite brands, trademarks, and established reputations, which still constitute legally-recognized and rightful monopolies.

The Shoe Machinery, General, Westinghouse, and Western Electric, Companies had and still have rightful patent monopolies, together with the fighting habit, retained from early days of strenuous competition.

The Pullman and Bell Telephone "Combines" have had and have legitimate patent and natural monopolies, with all the general advantages named above.

Finally there were or are those great cap-

tains of industry, Havemeyer, Armour, Duke, McCormick, Price, Greene, Dupont, Rockefeller, McKay, Coffin, Westinghouse, Pullman, Vail—those extraordinary men who, as everybody knows, *created* the great units, with their unparalleled efficiency and competitive power, which are the 14-inch guns of these Super-Dreadnaughts of our splendid commercial fleet—conquering and to conquer in the trade battles of the world, battering down and, for the most part, leveling prices at home. When in all history has *Government* created such men or their work—though in old days they created Government—or done anything indeed but attempt to hamper them, or fatten off it, when grown great?

I hold no brief for these commercial geniuses. They doubtless are not philanthropists, or actuated by other motives than hope of gain, and love of playing the game largely and well. They pretend to nothing more than ordinary commercial integrity. They are simply the men of top-notch power who happened first to be in the way of this or that new stream of cosmic force, and are strong enough to guide it, and even harness it to the service of mankind. When lesser bodies unwarily come too near their

magnetic sphere, the law of gravitation asserts itself; and soon or late, like planets, they must swing into subordinate orbits, revolving around the central sun, or else fall into it and become part of its glowing mass.

The *successful* Trusts have gained their power and wealth in *not one case before us* by the power of combination, but by that of destructive competition; not by monopoly, but by efficiency. With the exception of the Tobacco and Powder Trusts (perhaps even these too—it is hard to say) the 19 successful Trusts appear to have prospered directly in proportion to their actual superiority to all competitors, in low prices, in good quality, and in efficient service. The unsuccessful Trusts (of which there are so many as to make it clear that the monopolist's lot is not a happy one) appear to have gone down before all comers in their trades exactly in proportion to their own uselessness.

In short, it may be said that the only conditions under which a Trust can long survive, prosper and grow great, are those of greatest benefit to the community.

XIV

ELEMENTS OF COMPETITION. MOST OF THEM BEYOND REACH OF LAW

WHEN we come to consider enforcing competition by law, we observe that most of its important elements are quite beyond the reach of law.

I buy Smith's cigarettes, for instance, because they are cheaper, or better, or my favorite brand, or for their patent tip, or because his shop is just around the corner, or because I can pay him later, or simply because I like *him*. Here we have the elements of competition—price, quality, preference, patent monopoly, service, credit, personality.

Of all these, price is the only one within the limitation of law; and even that is beyond its compulsion. For the law cannot force Smith to remain in the tobacco trade, or any other, at any price; nor compel him to give better quality or service or longer credit than his powers permit of. On the other

hand it would be idiotic to command his competitors to raise price, or lower quality, or give poorer service or shorter credit. Yet Smith must come down, or Jones come up, on one or all of these points, if they are to compete on even terms.

Moreover Smith's sole right to his established brands, trademarks and patents, to sell or to withhold, is not only recognized by law, but law is powerless to compel me to buy another brand than Smith's, unless I choose. Just where the Administration expect to land in forcibly developing competition between "Bull Durham" and other brands of smoking tobacco (if Bull Durham is a smoking tobacco) owned by the Tobacco Trust, I cannot comprehend. Will it direct partisans of one or other to change their habit of smoking; or will it compel the Trust to a campaign of education to change it for them?

When it comes to the element of personality, the law is, if possible, more helpless still. Look at the successful Trusts. Each of them is the work of a man; of Havemeyer, Duke, Rockefeller, Armour, Pullman, etc. Will Congress enact that these giants shall shrink; or a Commission see to it that all

and sundry their little competitors shall swell to sudden parity of power? Yet one or other must be done to put them all on an equality.

Forced competition is a pipe dream. You can lead a horse to water, but not make him drink. It is hard for a man who has been in the melting-pot of a grueling competition, like the typewriter trade, to treat with decent respect Mr. Wickersham's naïve expectation that after disintegration the fragments of the Tobacco and other Trusts will compete because their heads will be indicted if they do not. It took, in the good old times of *free business,* about all the snap and fighting edge the law allowed to whirl into such a scrimmage as that: and now it is solemnly proposed to break the heart of competition at the outset by saying, "Now, damn you, compete. You will probably lose your money if you do; but you will certainly be jailed if you don't." Verily, to use the slang of the day, that were a "highbrowed" way to put ginger into a selling organization.

Fortunately, natural competition is tolerably certain, judging from history. The reason for this lies deep down in human nature. Big Business is always educating,

and must necessarily continue to educate able and vigorous young men as heads of departments. These men learn the business, and its enormous opportunities, each in his department; and they learn, too, that vulnerability of great trade which I have pointed out above. There are always among their number ambitious spirits, who wish to use their force and training for their own benefit, instead of that of a "soulless corporation"; and if they cannot get satisfactory advancement within its organization, they split off and create competition, often financed by friends among the stockholders of their old company, who sell out and put their funds into the new one. Personal differences between such ambitious men and superiors or rivals in the old organization are another fruitful cause of their desertion and entry into hostile camps.

Then, too, the magnitude of world trade, too great for any man or set of men to monopolize, is a third and yet more important cause of its division. I do not believe it to be within the bounds of possibility for any concern long to monopolize any large trade. Certainly the evidence before us does not justify the extraordinary fear of monopoly

which has possessed us all. The late H. H. Rogers said to me not long before his death, that the ever-present problem confronting the Standard Oil Company, was too much oil. In order to maintain its power to steady production and prices, it has to be prepared to put tanks and pipe lines in every new field, as fast as it comes in; and be ready to take and pay for the oil. But new fields are constantly developing, not only in North America, but all over the world. In spite of the Standard's enormous capital and perfect organization, competition is developing and will more and more develop here at home; it has plenty of foreign competition already. There is no protective duty against oil coming from abroad; and our home market has long been protected only by the matchless efficiency of the American refiners—unless perhaps there may exist secret agreements with the great foreign producers to stay out of our market, which I have never heard said. Anyhow such agreements always break down when times are dull and trade scarce. Even the Standard Oil is not big enough to do *all* the oil trade of the world. Competition is bound to increase; and the Standard's management, in order, like Carnegie, to keep

the "underhold," must constantly maintain its unrivaled facilities for manufacture and distribution, and keep its prices low enough and stable enough to take the trade, as it does now.

To-day's papers (January 22, 1911) say that despite the recent disintegration of the Trust prices of oil—of "independent" oil too—are rising. That is rough on Washington.

To sum up, I do not believe it to be possible actually to enforce competition or prevent combination by law; or to control prices by Commission or otherwise. Still less do I believe it *necessary*, in the common interest, or *wise* to attempt to do either. Sooner or later, if we may judge by the past, even by the short twenty years of Trust history, world supply and demand—nay, domestic supply and demand—will adjust prices: while as to all other elements of competition, it is to the public interest that quality, brands, patents and trademarks, good service and salesmanship should inure to the benefit of those who develop them, be they big or little in their business; else they will never be developed.

XV

THE NATIONAL CASH REGISTER COMPANY. A CONUNDRUM

Suit has recently been commenced by Government against the National Cash Register Company (which can hardly be called a Trust) more because of its fighting methods, I imagine, than because of any alleged combination. I have not seen a copy of the charges laid against it.

I call attention to the offense of this concern, which seems to me to have consisted mainly of open ruthless competition and uncompromising assertion of patent rights.

The "N. C. R." is owned largely by the brothers Patterson of Dayton, Ohio, who were practically the pioneers and creators of this valuable industry. They were coal miners, I believe, who put into two of their mine-stores two of a very early, rather crude form of cash register, and found, to their sur-

prise, that the machines converted a losing into a paying merchandise business. They realized that they had been suffering heavily from peculation; and that what was true with them was likely to be so everywhere. They decided to buy into a business whose possibilities for usefulness were so great; and it became their life-work. They began in a small way, without competition, and doubtless sold their simple machines at a good profit, thanks to their patent. They built up the business rapidly, I am told, out of its own profits; having invested not a very large sum at first. As the value of the cash register became apparent, other inventors got busy and competition began. The N. C. R. Company promptly sued all infringers, and by rapidly adding and patenting improvement after improvement, kept its machines ahead of all others in quality. Its patents usually won in the Courts, and its mechanical and sales departments were handled with positive genius. It made money faster than ever, and evolved complex machines capable of many useful accounting operations beside mere registering of cash, which sell for high prices. The fact that the Company's sales, at various prices, now touch huge totals, said

to be 17,000 machines per month, are proof positive that they are worth to the buyers all they cost, and more.

As the patents ran out and the simpler forms of register became open to manufacture by all comers, the N. C. R. reduced prices thereof to figures which now make profitable competition in these styles almost impossible: for its later patents yet control the more complex and higher-priced machines, upon which the profit is still large, and enable it to get along with a very moderate profit on the simple machines. Without doubt it will reduce the high-priced machines also, in due time, as later patents expire; and thus continue to defy competition, retaining as it will the bulk of the trade.

After a time, when patents cut no greater figure in the industry than they now do in, say, the sewing-machine trade, a competitor with very large capital and abundant nerve might compete by imitating all the N. C. R. models, and offering a complete line of machines from a complete system of salesrooms. If, however, the N. C. R. remains under the captaincy of the Pattersons, or men trained by them, who transmit to their organization in perpetuo their fighting edge

and principle of simply smashing their adversaries, how can the newcomer offer better service or lower prices? I confess I see no probable end to their monopoly.

Even so, what grievance would the public have, and why should Government interfere? If the newcomer cannot offer better machines or lower prices, will Government compel the N. C. R. to furnish worse machines at higher prices in order to put the competition on even footing?

By smashing its adversaries instead of combining with them, thus keeping its capitalization down and its balance sheet free from dead properties, the N. C. R. has put itself in position to make the low prices it now offers on early forms of machine. I believe that after whipping an adversary, it used to buy in any patent or valuable device which that adversary might own at slaughter prices. I hear too that its salesmen practically policed their respective territories; and if a competing firm's wagon delivered a register, the N. C. R. salesman on watch would "butt in" on its customer to "queer" the sale. But *that* is *competition,* just such as I met it in the typewriter trade; and competition is what

the public and the Sherman Law demand.

The N. C. R. has always lived up to that demand. There really has hardly been any other cash register on the market; so vigorously has it competed. What other serious charge can be made against it? *What else should it do under the law?*

The Sherman Law is exactly expressive of our self-seeking and muddle-headed treatment of our big concerns—and not only of the big ones, but of the little ones as well. The Law says, and we say, in effect: "Here, you big rascals, don't you dare combine or monopolize. Get busy and compete. Wipe the earth with each other. You will be indicted if you don't. But take mighty good care not to compete so hard as to *hurt* anybody, especially the little fellow, or drive *him* out of business. You will be indicted if you do."

How perfectly comprehensible! How loyal to the little fellow! And all the while, for a cent a pound on beef or for a quarter of a dollar on a pair of shoes, we desert him, and trade with Armour or Wanamaker, or some other big fellow. Then we curse the *latter* for brutally crushing out our feeble friends!

Oh, for a play from the clever pen of a Bernard Shaw to do us all justice! "Honesty and Super-Honesty," or "The Showing Up of Blanked Hypocrisy," for instance.

XVI

THE LABOR TRUST. FAILURE OF ITS FIGHT FOR INEFFICIENCY

LABOR organization is forty or fifty years old in this country. Its strongest arm, the American Federation of Labor, dates back some fifteen years. It claims some 1,700,000 members; and other organizations not affiliated with the Federation claim, say, 300,000 members. In all there are some 2,000,000 organized workers.

The Census of 1910 has not yet, I think, disclosed the number of gainfully-employed workers in the United States: but applying the ratios of the Census of 1900 to our 92 millions population, there would be some 35 million workers, say 20 millions in farming, 8 millions in manufacturing and transportation, and 7 millions in trade and distribution. Organization of labor has developed mainly in the cities and among the 8 millions of the second class named. Its membership touched a maximum of, approximately, 2,500,000

about 1903, and has fluctuated uncertainly since, down to present figures.

Its principles have consistently been those of *inefficiency;* that is, to render the smallest equivalent of work for the largest pay. It stands ever for reduction of working hours, and against piece-work, bonus systems, "speeding-up"; that is against increase of output per man employed. It stands also for monopoly, the closed shop; and against employment of non-union labor.

The records of nearly 37,000 strikes in some 181,000 shops and transportation systems, and 1546 lockouts in 18,500 shops, between 1881 and 1905, compiled by the Department of Commerce and Labor at Washington, show that labor, whether organized or not, has won about two-thirds of all *strikes,* organized labor winning about one-third oftener than unorganized labor; while employers have won about two-thirds of all *lockouts.* Most of the strikes which were won by labor were for increase of wages or reduction of hours. Most of the lockouts which were won by employers were against the closed shop, union recognition, and like causes detrimental to operative efficiency. All of the strikes put together covered the

insignificant total of but two-thirds of one per cent of the entire working time of the plants struck; the great majority of the fluctuations of wages, etc., adjusting themselves automatically under the law of supply and demand, without coming to the striking point.

These figures show that the power of the Labor Trust has been extravagantly overestimated; quite as much so as that of the other Trusts. Employers have generally yielded to labor as to wages and hours (whether strikers were regularly organized or not), whenever they found themselves actually lagging behind the general wage-level, or work-day length; the first of which has, for years, been rising with the general rise of prices all over the world, while the second has been shortening with the general increase of productive capacity per man due to modern machinery. On the other hand employers have quite as generally defeated labor, whenever halting wage-levels, unjust demands for monopoly in the shape of the closed shop, and demands impairing good management and efficiency were fought over.

In other words, *the attempt to control the labor market made by Trade Unionism evi-*

dently does not materially affect results. This is to be expected; for the report quoted shows that the Unions have failed to " corner " labor. After fifty years' work about one-fifth only of the eight million workers of the second class, above named (the most organizable), are organized; less than one-seventh of the fifteen millions of the second and third classes taken together, and less than one-seventeenth of all workers, adhere to all the Unions in this country. With such a vast reservoir of free labor to draw from, any abnormally high level of wages demanded by organized labor causes an instant flow-in of competing workers. Fear of violence and social ostracism is the only preventive thereto; and when violence is met by Government, as in self-defense it must always ultimately be met, with police protection or court injunction, Organized Labor is beaten.

In short, no more than the other Trusts, can Organized Labor long defy the laws of supply and demand, and the preference of laborers (as well as men in the higher walks of industry) to remain independent masters of their own destinies.

Employers understand this fact well. During 1901-1904 I was vice-president for

Illinois of the National Association of Manufacturers, an organization of 3000 of the largest employers in the United States, which during that troublous period was much concerned in forming a solid phalanx of employers against Organized Labor. I proposed a plan of mutual insurance against loss by strikes and lockouts, which, at first, found favor. Before long, however, finding that, after all, the Labor Trust could not seriously alter natural conditions, and that a little time was all that was necessary to readjust artificial ones, the members of the Manufacturers' Association lost interest in my plan; preferring each to meet labor questions for himself as they might arise, rather than tie up to any elaborate concatenation of heterogeneous industries, to any "entangling alliances." Strike Insurance no longer seemed worth while, cheap though it would evidently be.

Nevertheless Organized Labor, like the other Trusts, so long as it affords a money-making vocation for its managers, is here to stay; but like them, it must modify its principles and stand for efficiency, good public service—not for monopoly or sloth, if it is to succeed. The larger employers are already

offering their men in the shape of pensions, stock ownership on easy payments and the like, benefits so much greater than those afforded by the Unions as to become formidable competitors of the latter in their own field. To me this latest movement seems logical and sound; and a long step in the desired direction of stilling labor's "unrest."

The recent McNamara confessions are likely to hasten the disintegration of the present Labor Trust. It seems clear to me that, so long as the majority of our people believe, as we unquestionably do, that every American was born with the right, moral and political, to compete for any job in sight, without asking leave of the Labor Trust, or any other Trust—and so long as by far the most of us back up our belief by staying out of the Unions—prices of labor are as certain to rise or fall to their natural economic level, as are those of commodities. Higher levels are impossible. Lower levels cannot last.

Let me not be understood to condemn labor combination any more than I condemn industrial combination. Certainly such feeble folk as shirtwaist and garment workers need to get together in order to make head against

destructive competition between themselves. Even more so do their employers, whose industries are now conducted for the most part in numerous factories, and whose small scale of operation and competition amongst themselves, with their resultant waste, is more responsible for grinding down wages, I imagine, than is any hardness of their hearts. Like other businesses, these clothing trades could pay better wages if integrated into bigger establishments.

I do not condemn labor combination, let me repeat. I merely note that, like all the rest, it cannot succeed by mere overgrown size or by selfish inefficiency and attempt to monopolize opportunity. Certainly to none of us is denial of opportunity so cruel an injustice as to the very poor.

Such attempts at wholesale paralysis of trade and starvation of the entire community (in order to enforce the will of a single body of laborers) as the present English Coal Strike, *must* sooner or later result, it seems to me, in a political movement of the community against the unions, that will make nation-wide, not to speak of world-wide, interruption of supply of the necessaries of life impossible.

XVII

THE PASSING OF LITTLE BUSINESS. BIG BUSINESS UNDERSELLS. THE PUBLIC UNDERBUYS

It is quite true, that where the great Trusts come in, the old-fashioned little man must get out; and that in numberless cases without any fault of his own, except that he was born and grew up small. Undoubted hardship falls to him; he complains and his neighbors sympathize, and say it is a shame that a great Trust should run him out of his honest business. Such complaints and sympathy are at the bottom of the immense antagonism to the Trusts. Just so when the power loom came in, the hand weaver had to go, and there was much denunciation of the loom. So when the department store came in, the small shopkeeper suffered, and the big stores were denounced roundly. Nevertheless, the people bought the cheap goods from the power loom and the big stores, and deserted their little friends who could not serve them as cheaply.

So *the people* are now patronizing the

Trusts. I entered the typewriter trade in the early days of the Typewriter Trust, on the assurance that the people were crying for an Anti-Trust machine; and indeed they were very glad to put my machine on trial against those of the Trust. But did they buy mine, when the time came to decide? Not often! They bought the Trust machines, because they were better known, longer established, often cheaper, better guaranteed; in a word, because their business interests weighed more with them than their sympathy, which was undoubtedly mine.

Did I, therefore, have a right, because this Trust was too much for me, to go whining to my Chicago Congressman to introduce a bill into Congress forcing the Trust by law backward and downward to lower levels of quality and efficiency, or upward to higher levels of price, so as to let *me* live? Not at all! If I could not do something for the public to make my competition real, to justify my own existence, once more to use the slang of the day, " It was up to me to go away back and sit down." And I did, taking my medicine like a man.

So we all should. I cannot help feeling that there is a lot of hypocrisy in our un-

limited denunciation of Big Business; for our patronage of it is proof positive that we benefit by it, nor would it be big but for our patronage. For it is at all times in our power, every one of us, if we believe that Little Business really serves us better and cheaper, and that it is wrongfully being "crushed out" by the unfair competition of Big Business, to keep on patronizing it, and paying the prices necessary to keep it alive.

Do we do this? Is there the remotest danger of our ever doing it? Not the slightest—if we may judge from the insignificant results accomplished by the only logical, consistent, widespread effort ever made, to my knowledge, to change the average woman's habit of buying where she can buy cheapest. (I refer to the generous efforts of the Consumers' Leagues everywhere.) Let us be honest then. If it is wrong for the Trusts to undersell, it is wrong for us to underbuy. *We* are particeps criminis, and *our* connivance is absolutely essential to the consummation of the crime.

Can we moreover fairly call it a crime, from the view-point of the common interest, as distinguished from that of Little Business? Certainly the fact that Little Business can-

not meet the low prices and good service afforded by Big Business, and everywhere goes to the wall, or fades away, indicates that the high prices we pay nowadays would be *far higher yet,* if Big Business had never come.

It is my conviction that we are benefiting enormously by reason of the Trusts; and our continued patronage of them against growing competition is the best evidence of that fact.

There is abundant collateral evidence to the same effect, some of which I will here present. Let us consider, for instance, the report of the Bureau of Manufactures, Department Commerce and Labor, 1905.

This report enumerates 216,262 manufacturing concerns in the United States, which it divides into 5 classes according to output: No. 1, output $5000 per annum value, or less; No. 2, $20,000 or less; No. 3, $100,000 or less; No. 4, above $100,000; No. 5, above $1,000,000. Class No. 1 employs 1.9 per cent of the labor, pays 1.6 per cent of the wages and produces 1.2 per cent of the output. Class No. 2 employs 7.7 per cent of the labor, pays 7.2 per cent of the wages and produces 5.1 per cent of the out-

put. Class 3 employs 18.8 per cent of the labor, pays 18.3 per cent of the wages and produces 14.4 per cent of the output. Class 4 employs 46 per cent of the labor, pays 45.7 per cent of the wages and produces 41.3 per cent of the output. Class 5 employs 25.6 per cent of the labor, pays 27.2 per cent of the wages and produces 38 per cent of the output.

In Class 1 the general or overhead expenses are 20 per cent of the cost of labor and material; in Classes 2, 3 and 4, they are from 13 to 14 per cent, and in Class 5 they drop to 11 per cent.

That is to say, Biggest Business pays its men 26 per cent more than Littlest Business does, wastes 45 per cent less in overhead or non-productive expense, and increases output per man by 130 per cent!

What becomes of the great saving in cost of production due to this increased output and reduced overhead expense? Does it go to swell the huge profits of Big Business? With rare exceptions, the Stock Exchange values of the Trust stocks answer "No"; and these values are fixed, according to profits, by the bulls and bears, the coldest-blooded appraisers on earth. Poor's figures

given above show dividends and interest paid on railroad capital averaging less than 3¾ per cent; on industrial capital averaging about 4¾ per cent. Most of the saving must then go *to the consumer* in reduced prices. Such is the law of trade. Let us consider, in this connection, the much cursed Beef Trust.

The leading packers of Chicago are now on criminal trial for alleged violation of the Sherman Law. Granting, for argument, that they are guilty—what development, big or little, in the history of trade has been so beneficent to the community as have been the colossal operations of the great packers? They are literally the length and breadth of the whole country away from monopoly, despite the fact that they do not fight each other. As is common knowledge to every man who has eyes to see and nose to smell with, there are local slaughter-houses everywhere throughout the land, and local farms and cattle supply adjacent to them. Yet the packers bring the cattle all the way from Montana or Texas to western packing houses, dress, hang and ice the beef and freight it back to the country towns whence it came, or to far eastern cities, to sell it in keen com-

petition with beef grown and dressed on the spot. The only way to overcome the resulting handicaps of time and freights, and the expense and loss of handling thus the most perishable of commodities—huge handicaps indeed—is to do business with the maximum of volume and efficiency, and the minimum of profit. The Garfield Report on the Beef Industry, of 1905 (a report denounced and unpopular because it told the truth), showed that the big packers then sold approximately the following percentages of the fresh meats:

In towns of 2000 population or less, 20 per cent; of 5,000 to 2,000 population 30 per cent; of 10,000 to 5,000 population 40 per cent; of 50,000 to 10,000 population 55 per cent; and of over 50,000 population 60 per cent. In the great cities, especially the eastern cities, they supply from 60 to 70 per cent of all meats, the local farms and slaughterers being depended on for but 30 to 40 per cent of the consumption.

Where then, one naturally asks, would New York, Boston and Philadelphia turn for meat, were the great packers and their operations suddenly suppressed by law? The dense congestion of population around

New York does not and cannot similarly congest the farms of Connecticut and Long Island with millions of beef cattle; rather the reverse. But for the packers and their refrigerator cars, there would be a veritable meat famine in every eastern city; and no man can say what prices would prevail, except that they must needs be far higher. In other words, these packers, who are accused of causing the high prices of meats in recent years by extortionate profits, have on the contrary held down eastern slaughterers to the bottom levels of price fixed by lowest western cost, plus transportation and the most minute profit recorded in trade history. There is no secret about that profit. The Garfield Report fixed it at ¼ to ½ a cent per pound; and it has been common knowledge among well-informed men in Chicago (where I live) for the last 25 years, that packers' profits are the smallest known, averaging 2½ per cent upon annual turnover. Of late, since their huge operations have forced the packers to become great borrowers, and float many millions of securities upon the Eastern Exchanges, they have been forced also to publish annual statements of operations and earnings, which any man

can read in the *Financial Chronicle*. Here are some of them for recent years:

Armour & Company: Stock and Bonds, $50,000,000; Property Value, $94,000,000; sales for 1910 over $250,000,000. Profits (including those of refrigerator car lines) for 1910, $5,817,000—or about 2 3-10 per cent on gross turnover. Profit for 1911, $2,510,053 or about 1 per cent upon gross sales for 1911, again in excess of $250,000,000.

Swift & Company did better in 1910. Capital, $81,000,000; sales, about $250,000,000; profits (3 2-10 per cent on turnover) $7,389,000, 1911 profits not yet published.

(For comparison it may be noted that wholesale merchants expect to make from 6 to 10 per cent on turnover, manufacturers generally from 10 to 15 per cent, small retail merchants from 15 to 20 per cent.)

As wholesale prices of beef in 1911 averaged about 12 cents per pound (Boston quotations), Armour's extortionate profit must have been about ⅛ of one cent per pound, or well below that allowed by the Garfield Report.

Wholesale prices of meat in the United States have risen since 1896, according to "Bradstreet's," over 60 per cent—say 4 to

5 cents per pound. Certainly, then Armour's profits do not account for the rise. But the average value of farm lands has more than doubled, since 1900, according to the 1910 Census. Perhaps the farmers' profit throws some light on the increased cost of beef.

In England, where there is no Beef Trust, and meats come free of duty from all the world, according to Sauerback animal food rose 73 to 89 per cent between 1896 and 1908.

Would not it be wise for England to import a Beef Trust, as well as beef, if these figures of Sauerback's and Bradstreet's are reliable?

XVIII

LARGE UNITS IN COMPETITION RESULT IN PRICE EQUILIBRIUM

JUST as corner grocers and druggists do not engage in perpetual price wars, so the larger units of Big Business tend to live and let live, in peaceful price equilibrium. Their minute margins of profit leave no room for price-cutting between such formidable concerns as the great packers. A war cut of but a cent a pound in wholesale meat prices, if not taken out of the cattle growers, would cost Armour & Company, for instance, not far from 20 million dollars per annum and mean bankruptcy in two years, unless their competitors should fail first. Naturally enough Armour, Swift and Morris have not dared to fight each other. They are, however, willing to fight local butchers everywhere throughout the length and breadth of the land; and to hold down local prices to the bottom levels fixed by western cost plus their own minute

profit. For doing this last they are everywhere fiercely denounced, extraordinary as it may seem; and for *not* fighting *each other,* until only one survivor remains, as ordained by the Sherman Law, they are likely to be declared criminals, and sent to felons' cells. Yet it is not apparent, to me at least, what benefit the eastern housekeeper is likely to reap therefrom; nor in what she would have been better off, if ten years ago Armour had wiped out Swift, Morris, and incidentally all the smaller fry, in a finish fight, and now reigned alone as overlord of all barons of beef.

So among the Sugar Refiners, with their minute 1-5 of a cent per pound profit—or between 3 and 4 per cent upon gross sales—precisely the same unwillingness to fight appears. Mr. Arbuckle says an "armed neutrality" prevails. Just so, before the day of the Interstate Commerce Commission, there were "gentlemen's agreements" between the Trunk Lines as to rates; and in the steel trade until very lately there were "Gary dinners." All such live-and-let-live arrangements have been denounced as "conspiracies of the great Interests to rob the public." They were not; but were rather

armistices, suspensions of hostilities, due to fear of consequences; *just such as exist between the little stores of country crossroads.* The bigger the units in competition, the greater the disaster of a finish fight. There results a powerful tendency toward cessation of hostilities, to a sort of "unstable equilibrium" of prices, easily disturbed, and very responsive to material changes in general trade conditions. One need only glance back a very few years to the constant breaking of those "gentlemen's agreements" by the railways, that made the phrase a by-word at the time; or a very few months, to the price-cutting in the steel trade, in spite of Judge Gary's soul-satisfying dinners; or forward scarcely longer to the new competition coming in the sugar refining industry, in order to see the extreme instability of these armistices, due to the fact that syndicates can never hold prices far away from those fixed by world supply and demand.

This condition of sensitive equilibrium of prices among the big fellows, though its levels are generally too low to support the existence of the little fellows, seems to me more nearly ideal from the consumer's point of view than could be any possible attempt at regulation

of prices by commissions, however eminent and disinterested the commissioners. No country, probably no group of countries, can fix world prices of commodities, or even cut loose from them. Witness our own and other disastrous attempts to sustain the price of silver but a few years ago.

Why should we, then, in our haste, prescribe surely futile remedies or remedies worse than our diseases? Why not leave to the laws of trade and to time, which all history tells us will presently deal effectively with them, such creations of human greed or ambition as plainly contravene those laws? As the Bible says, "A little while, and ye shall not see them."

XIX

THE FAILURE OF DISSOLUTION TO DISSOLVE

WE have seen how Courts in Illinois dissolved the Chicago Gas Trust twenty years ago and that, nevertheless, there is to-day but one Gas Company—a complete monopoly—in Chicago, owned by the same controlling interests and actually managed by the same men as the old Gas Trust. About the same time, the original Sugar Trust was declared an illegal combination in the Knight case; only to be succeeded by a corporation controlled by the same Havemeyer until he died. The Standard Oil Trust was next dissolved, in Ohio; and succeeded by a New Jersey Corporation, always controlled by Rockefeller and his associates. Next came the Northern Securities Company, dissolved by the United States Courts: but the Northern Pacific and Great Northern Railroads are still controlled by Messrs. Hill and Morgan, despite the Courts, and malgré the mighty Harriman in his day. Now for a second time

"Standard Oil" is dissolved, and "Tobacco"; and more dissolutions are coming. What have they all effected, or will they all effect, these dissolutions? *Nothing whatever,* except a temporary panic in their securities upon the Stock Exchanges, affording royal opportunities to "insiders" for manipulation at the expense of their more timorous shareholders. The reason is evident.

There is no law, and I believe no constitutional power, permitting the State to forfeit a stockholder's ownership in such Trust properties, or his right to elect managers thereof. Dissolution simply operates upon the form, not the essence, of that ownership. The same men own the reorganized corporations that owned the original Trust—and inevitably they will give their proxies for the election of the same directors and managers who paid them good dividends before. Indeed these gentlemen often own shares enough to reëlect themselves.

Congress is, therefore, absolutely powerless to take the ultimate premiership in a given trade from the strong men who have had the brains and skill to build up the largest investment in it. Moreover, it would be grossly unjust and undemocratic to enact

that, simply because one man or group of men had put more money, time and toil into an industry than anyone else, or even than all others, *ipso facto* he or they should henceforth have nothing to say about it. Such a phrase as Mr. Pinchot's slogan, "The Interests must get out of politics, or out of business" seems to me absolutely inconsistent with that older and still honored American principle, "Taxation without representation is tyranny." Yet, substantially, such law is what Mr. Brandeis asks for on behalf of the independent tobacco interests. What Mr. Brandeis should demand of Congress is an act bestowing the brains and energy of Duke and his associates, with the confidence reposed in them by the Tobacco Trust stockholders, upon his clients.

As it is, he demands in vain. So long as the right of private property prevails, stockholders will reëlect good managers. The only way for Mr. Brandeis to force control of these great industries into the hands of their second- and third-rate men, is to nationalize their ownership, and throw the elections of their managers into party politics. Then he will indeed secure administration of them

upon every principle except that of sound business.

It seems to me that the only demand that the people can justly make of Big Business, as to its furthering its own commercial interest, is that its political activity shall be open and aboveboard; and its expenditures for political purposes shall be published in detail. Plenty of legislation already proposed tends to effectuate this demand. But disintegration is no remedy. It is not for the people to deprive stockholders of their right to elect their own managers.

These considerations lead naturally to the study of an exceedingly interesting phenomenon, the wide and increasing diffusion of ownership of Big Business.

NOTE.—The New York *Times* of March 7th says that the Standard Oil and subsidiaries' stocks are now selling in the open market at the high-record price; higher than before the recent dissolution suit was commenced, and by $181,000,000 above values quoted just before the dissolution decree was entered.

Apparently, dissolution not only does not dissolve but does not seriously injure the Trusts.

XX

DEMOCRACY OF BIG BUSINESS, ITS SOURCE OF POWERS. THE MONEY TRUST

When the Sugar Trust was organized it had 17 owners—now there are (1910) 20,050. Andrew Carnegie had once 35 partners; now there are said to be 150,000 stockholders of the Steel Corporation. The Bell Telephone reports 40,381; and so on. There must be more than a million stockholders in the corporations listed by Poor, and the distribution in small holdings of their shares is constantly increasing. Our people, or rather 12 to 15 per cent of them, are thrifty, and have, for many years, put money in the savings banks, in building and loan societies, in life insurance and in little homes. Of late years we have come to understand that good bonds and stocks pay better than savings banks; and more and more are we buying the issues of those corporations whose sound management, regular dividends, and complete publicity of operations commend

them to a wide-awake and courageous public. As the price of land advances, and ownership of lands and buildings becomes more and more out of reach of the small investor, this tendency to buy into stocks and bonds must increase; particularly into those of the corporations employing the investors themselves. In the old small partnerships and corporations, doing limited and precarious shares of great trades, without breadth of organization and inherent perpetuity, without publicity of earnings or market for their issues, an opening for the small investor was rare and risky. Its creation in the great modern corporate issues, granting they are honestly based on values, is a tremendous step ahead in sociology as well as economics.

For, supposing we were all stockholders in the Steel Corporation, though we might worry about its management, which of us would demand its dissolution? Or if, as may sometime be possible, most of the Steel Corporation's employees acquired the habit of saving, and put their earnings into its shares, what would become of Mr. Gompers' dream of some day unionizing the Corporation's employees?

This is Judge Grosscup's idea, that the

wide diffusion of the ownership of the great corporations among the people is their mission, and the true solution of social and labor "unrest." It is certainly a big and attractive idea. The Steel and Harvester Trusts are working upon it with some success: though the former is embarrassed by price fluctuations due to over-capitalization, and both will find, I fear, that the majority of working people are slow to save and invest.

But as things are, with the popularization of our great corporations only just commenced, *the basis of control of Big Business is even now exactly as democratic as that of our politics.* The people of these United States are ruled by four or five hundred men at Washington; and they in turn are really ruled by forty or fifty of their own number. Yet we do not dread these our rulers; for we *elect* them! They have for the time, at any rate, our confidence. Just so, the Big Business of the country is ruled by four or five hundred New Yorkers, Chicagoans, etc. —but the owners of the business are not worried. They *elect* these men because they have confidence in them.

Take the so-called "Money Trust," which Congress seems likely to "investigate." It

will probably find, as some writers have already found (who are fearfully worried about other folks' money, perhaps because they have not much of their own to worry over), that the big "groups"—Morgan, Standard Oil, the great Jewish international bankers—with their connections "control" each several several hundreds of millions of dollars of bank deposits, and thousands of millions of dollars of corporate securities; and it may hastily conclude, therefore, that a few men have got us who save in their robbers' roosts, to plunder us as they will.

Let Congress, however, not be dismayed. Just so, Messrs. Taft, Champ Clark, *et al.*, have us all under the seats of their curule and other chairs; to sit on us with large corporosities, and deprive us of life, liberty and the pursuit of rainbows—to say nothing of taxing us—at their will. But we do not worry much; we elected *them* and *can* elect others. Neither do the constituents of Messrs. Morgan and Stillman worry. The "Money Trust" is the expression of the confidence of national and state bankers all over the country, of private bankers, brokers and investors generally, in the knowledge, the integrity, the judgment, and the enormous

personal stake at risk, of the great leaders of finance; evidenced by depositing cash reserves with the banks controlled by the gentlemen named, and by intrusting them with the proxies which elect the great railroad and industrial Boards of Directors.

Certainly this *is* an enormous concentration or delegation of power to a very few men; but it is the voluntary trust committed to them by those who have the right to bestow, and the power to recall it. It has come to stay, here as in other capitalistic countries; though it will not repose always in the same hands. Confidence is the most delicate of psychological flowers, and withers in a night ofttimes.

Consider the situation for a moment. The capital of the Morgan firm is said to be 100 millions—nobody knows. The group of financiers for which the firm stands may easily be worth 500 millions, the Standard Oil group another 500 millions; and the great Jewish international banking group a third 500 millions—all this is guesswork. But the stocks and bonds totaled in Poor's Manuals total 35,000 millions! How can these three groups *own* them all, or any considerable part of them? How can they even

control their management except by the votes, the proxies—that is by deserving and keeping the confidence—of the hundreds of thousands of actual owners of all this property? Consider the bank deposits of the so-called "Trust Banks"—First National, Commerce, City, etc.—say in all 700 or 800 million dollars; then those of all the banks, State and National, of the country, which were, according to the *Chicago Daily News Almanac,* in 1910, no less than 15,859 millions. Great as the Trust banks are, how small their actual money power is compared to that of the whole banking system of the country!

How absurd, then, is it to orate wildly about the passing of the *ownership* of the wealth of the land into the hands of a few men in Wall Street, huge as their private fortunes unquestionably are! What *has* passed into their hands, and will remain there only so long as they deserve it, is the confidence of the people who save and invest. Stock and bondholders all over our land deposit their reserves with the Money Trust banks, because they have done so for years with safety and profit; and because the masters of Wall Street are usually men of at once constructive and conservative mind, and of proved

integrity—in the long run safe and sane people. Of course they are human and occasionally make mistakes. When I was a boy Jay Cooke was, perhaps, the leader in Wall Street. He was before his time in the Northern Pacific flotation, lost investors' confidence, failed and dropped out of the Wall Street spotlight. After him came Henry Villard and made Cooke's story a twice-told tale. To-day "Jim" Hill is firm on the foundation of the same property that crumbled away beneath his predecessors. The collapse of Steel Corporation shares and International Mercantile Marine shares in 1904, was something of a shock to the prestige of the Morgan firm; and every little yellow dog in Wall Street thought himself big enough to bark at the great house. Not long after, the collapse in "Amalgamated" rather discredited the Standard Oil leadership. Those were extraordinary days of industrial expansion and over-confidence; and it is no wonder that even strong heads were a little turned by the wine of success. Nevertheless, the inherent soundness of their constructive work in due time generally asserted itself, and long since rehabilitated them in financial opinion, until now they are doubted

only by those who have no proxies to give, and little cash to deposit.

But granting, for argument, that there *is* a Money Trust, what, then, can *Congress* accomplish to protect us all against it? Those of us who have much to invest have small confidence in Congress; and those who have little or nothing to invest have fared even worse than we when Congress hits trade. Per contra we have *large* confidence in the great private and national bankers; legitimately theirs, and earned by long years of success, during two or three generations of management, in safely and honestly handling other people's money. Congress can investigate and legislate against the Money Trust until the crack of doom, but will accomplish nothing. The essence of the "Money Power," the confidence and votes of its owners' huge following, are as utterly beyond the control of Congress as is the force of gravity, or even this year's elections! How humorous, for instance, would be an Act ordering all shareholders to give their proxies no longer to the great bankers, but to the Honorable William Jennings Bryan!

The captains of industry and finance, then, find their strength in *democracy,* even as do

the political captains. There is but one difference, which will I trust before long disappear, between the appeal of one and the other to their constituents, to wit: The business candidate is supposed to *know* the job he aspires to: the political candidate is *not*. That, however, does not work to the disadvantage of Big Business.

NOTE.—The proposals of the Aldrich plan, to create a National Reserve Association, and lessen the concentration of the country's bank-reserves at New York, thus making them available through local reserve-centers for merchants and manufacturers everywhere, offer to Congress about the only method apparent to me of dealing a blow at the Money Trust, in taking part of the reserves out of its reach. But, because the great bankers for the sake of sound banking in general favor this plan, Congress is said, with characteristic denseness, to oppose it.

XXI

WALL STREET PROFITS

MUCH of our hostility to Trusts is due to their huge capitalizations, and the belief that prices are jacked up to pay dividends thereon. This last is in general impossible for any length of time, as indeed appears abundantly in this little book; but much color has been given to this belief by the great and sudden fortunes made by those who have sold out to the Trusts, and those who promoted them, many of which have become notorious.

An oft-told story is that of two brothers, lawyers in a western city, men of ability, who early perceived the possibilities of economy and efficiency in combination. They were natural geniuses in negotiating with and bringing together business rivals that had been at each other's throats for years; and believed in putting together good properties in a sound way. They also believed in capitalizing every last dollar's worth of the earning power so developed.

Their first confection, I think, was the Diamond Match Company; and it was a great success for some years, though later not so fortunate. It owned valuable patents, and for a while had something approaching a monopoly. During its first flush of prosperity, the brothers were caught in a money pinch while "bulling" its shares on the Chicago market. They were sold out by the banks and brokers who were carrying them, and were said to have been left two or three millions worse off than nothing. Not at all daunted, they went at trust building again to recoup themselves; and in three years more had put together the American Tin Plate Company, capitalized at $64,000,000; the Steel Hoop Company, capitalized at $31,000,000; the Sheet Steel Company, capitalized at $49,000,000; and the American Can Company, capitalized at $82,500,000.

I think, too, they were concerned in the National Steel Company, capitalized at $74,000,000.

By 1902, they had put all of these concerns except "Can" into the Steel Corporation for $219,000,000 of that Company's stock. All of them were good, strong, well managed, paying properties when taken over by

the Morgan Syndicate. The Can Company they retained, as noted elsewhere.

Of course they had never foreseen such luck as the coming along of the United States Steel Corporation: but the result of their masterly manipulation of these properties was that, whereas they were heavily in debt in 1908, only four or five years later they and their associates, two "gentlemen from Indiana," were worth fully ten million dollars apiece, in common belief. As an evidence of their solid wealth, they bought into one of the first banks of New York, bought control of a great railway system and have been powers in Wall Street ever since.

They were men of rare ability. They chose the psychological moment for trust building, and likewise for "unloading": put good properties together in a solid way, and made money for all who followed them, except in the Can Company. Even that may yet pay those who held on to their shares; probably has already done so.

In all these flotations they pursued the stereotyped plan of forming an underwriting syndicate to avail itself of options taken at high figures on the principal competing concerns, payable in stock of the combination.

After rounding up enough to make sure of success, the properties were purchased for the new shares, and the latter at once listed on a Stock Exchange, and made "active" by many brokers who had been let in on the underwriting of the whole scheme. This speculative activity before long would result in "distributing" many millions of the new shares; bought for the rise by traders in stocks, and so taken off the hands of the syndicate.

This whole method of proceeding is honest enough, if the earnings justify the capitalization and the prices at which the shares were distributed. The earnings of all these properties were good; and their union was constructive. Doubtless prices of their products were marked up, until competition sent them down later; but I have understood that most of the gain in earnings capitalized and "cashed in" by the promoters was from economies in selling and operation. It is difficult to believe the extent of such economies. During the first year after the formation of the Harvester Trust, while its members were studying how to operate best together and save most, one of them told me that the economies possible totaled about

$7,000,000 per annum (or nearly 6 per cent profit upon the entire $120,000,000 of the capital!) all of which could be made without impairing quality or increasing prices of its product. Naturally, the Harvester people considered this saving, which cost the public *nothing*, as fairly their own. The public, of course, thinks differently; while Government now apparently demands restoration of former waste.

I give these instances in order to show how wasteful is competition, and how useful, in the long run, is the elimination of small competitive units, and the creation of larger ones, in reducing that waste to the minimum; also to show how the keen men of Wall Street could really *create* a new earning power, a new value, and cash it in by issuing and selling stocks representing it, without dishonesty.

Of course I do not deny that lots of stocks were created and sold that represented false values, or mere rosy anticipations; whose vendors swindled the buyers unmercifully. (Such were not the instances cited above.) It is a case of *caveat emptor*. The markets always separate good from bad, sheep from goats, as far as buyers of Trust stocks are concerned; the over-capitalization not very

materially affecting the buyer of Trust commodities. Considering which, the question arises, "What will best protect the buyer of Trust stocks?"

"Time," seems to me to be the answer. Forbid the sale of new securities long enough to permit them to ripen, and enable the buyer or his broker to investigate the record of actual earnings and real values—not the mere anticipations of sanguine promoters.

I made this suggestion in an *Outlook* article in the spring of 1909. Being called to France on business the next autumn, I was much interested to find that in the French Corporation Law there is a provision forbidding for two years after issue the sale of new shares (known as *"parts d'apport"*) issued to promoters for services, or to vendors for property; while only shares issued for cash paid into the treasury of the corporation (known as *"parts en espèces"*) can be sold before the expiration of that period. I was informed that this provision for delay, and opportunity for studying actual returns from the operations of such corporations, goes far to prevent the foisting of worthless shares on ignorant buyers. Of course no provision of law will kill off the recurring

crops of those unfortunates whom the Street disdainfully calls "suckers."

This requiring promoters and vendors to carry their own holdings for two years makes flotations more difficult, and demands more cash. But it is a healthful and restraining safeguard, which might well be thrown about flotations in America.

One other thing is evident to a student of these Stock Exchange flotations; that they could not have been accomplished, and probably never would have been attempted on so gross a scale of inflation, had it not been for the machinery of the Stock Exchange, especially the practice of margin-trading.

The usual procedure has been to buy the properties combined for stock or stock and bonds, both in very large quantities; and to list the new issues at once upon some Stock Exchange, and make them "active" by bidding them up in open market, the syndicates providing the funds for this purpose. This attracts the margin speculators, and gradually they purchase in small lots, on 10 per cent margin or so; until before long the whole great flotation is pretty well "distributed," after which the market is left to take care of itself, and a collapse often supervenes.

The vice of this method long preceded and is not the fault of the Trusts; but is rather their cause, the basis of their over-capitalization. I have elsewhere long ago advocated a law fixing minimum speculative margins far higher than 10 per cent. Had such a law existed, Trust inflation would never have gone as far as it did, in my judgment.

XXII

THE WEAKNESS OF BIG BUSINESS. MISCHIEF RESULTING

LET me not seem to speak disdainfully of those who have no cash to deposit and no proxies to give, and therefore rather distrust those who possess both, be they big or little in finance. The thrifty are the few and those who do not or cannot save the many everywhere; and here they have the votes, and elect our lawgivers—so weak to create but so powerful to destroy our commerce. It is to the many, the average man, that this book is trying to show, in large type and short phrases, that he who runs may read, the *actual weakness,* the purely *imaginary* gigantic power, of all Big Business: the great natural difficulties which ever surround it; its usefulness to all; and the mischief of adding to those natural difficulties the smothering uncertainties of political interference.

Its usefulness is that it can and generally does serve the public cheaply and well. Its

weakness lies in widespread unreasoning popular hostility, and the timidity of capital. The mischief is that in blindly striking at it we hit no one so hard as ourselves.

Let me illustrate this.

When I was President of the Chicago Gas monopoly, a corporation which was daily denounced as a powerful and oppressive monopoly, anybody—especially any guttersnipe of a small politician—could walk into my office and abuse me and my Company. I had to sit and take it. If I had hit the fellow, or bid my "minions" throw him out, as any self-respecting man would burn to do, the press would have denounced me as an arrogant corporation bully, and my Directors would have censured me for lack of self-control. The Legislature, the Council, the Courts, the Press, the People, everybody was against the Company, and me as its head. The Legislature attacked gas rates, the Council repudiated gas franchises, the Courts dissolved the Corporation as a conspiracy in restraint of trade, the Press spread broadcast the vileness of the Corporation, and of my personal character, with absolute impunity. The blackmailers buzzed around the concern like horseflies. Where meantime was the

Trust's colossal power? What did it do to those upstart Legislatures, Councils and Courts? What official, editor, or citizen did it harm, imprison or oppress? Whose life, liberty or pursuit of happiness did it take away? What overt or other act of any name or nature did it commit; further than in great trepidation, and under severe financial embarrassment, to continue the harmless and useful business of making and selling gas? Its only other notable performance—and that several years later, when it became impossible to finance the rapid increase of the gas plants demanded by the growth of Chicago without legalizing the Company's status—was the procurement of an Act of the Legislature permitting the operation of the former four gas companies as one. For this Act the "hold-up" gang in the Legislature is believed to have forced out of one of the owners of the Company over two hundred thousand dollars; though the Act conferred neither exclusive rights, nor immunity from rate-regulation—nothing but legal status in every way beneficial to Chicago!

Does the reader ask other instances? All the Railroads, that are said to own these United States, and Congress, and the Legis-

latures, could not prevent the passage of the Interstate Commerce Acts, and the establishment everywhere of State Railway Commissions. All the Trusts together could not stop the passage of the Sherman Law, or the prosecutions under it. Even Mr. La Follette on his own showing was all by himself too much for the huge and rapacious "Interests" of Wisconsin: and he is now gayly tackling, without hesitation, the 36,000 millions of corporate capital of the whole United States. Verily a brave boy is he: but where is the power of, let us say, the mighty giant Rockefeller? Why does not he pick up this small champion of the people 'twixt thumb and finger and drop him over the edge of the universe into innocuous desuetude?

Very likely he might, if he had the power. Certainly Wall Street would not long since have dropped Mr. Roosevelt, if it could have, into a place strenuous enough even for him: only it couldn't. What rotten demagogy is the rant about the *power* of Big Business!

"But it has money," you will say, "and can and does corrupt. There lies its power and its menace to the State."

Not so. True enough, it has the *ability*

to offer a bribe, and sometimes the *will*. But the *power* to accept or reject lies with the Alderman or the Judge. What can Big Business do to *compel* him to corruption?

Almost nothing. If he is proof against money, Big Business cannot use physical force, and it is useless, as Mr. La Follette himself has shown, to try political pressure. For the last twenty years the hostility of Big Business has been a valuable asset, a positive God-send to the ambitious politician. I myself once tried to beat, for reëlection, an alderman from one of the working-class wards in Chicago, a notorious corruptionist and blackmailer. My friends simply laughed at my efforts. All he had to do was to say that the Gas Company was gunning for him; and come back to office triumphant. He was there yet, the last time I inquired. No, Big Business cannot hurt such men; they have everything to win, and nothing to lose.

On the other hand, *they* can deal Big Business staggering blows. Regulation, taxation, confiscation practically of principal and interest of property running into the millions, lie within their hands. If they want to be bribed, are *determined* to be; if that, among

other gainful objects, is why they are in politics, what they are in office for—the pressure *they* can put upon Big Business to compel *it* to bribe, under present conditions of unreasoning popular hostility, is something well-nigh irresistible. I speak by the card, for just that pressure forced me personally out of public-service-corporation life in Chicago twenty-three years ago; the demand of the so-called "gray wolves" in the Chicago Council for twenty-five per cent of the City's Gas Bill as a consideration for peace and gas appropriations. The Gas Company, in the then inflamed state of public feeling, dared not turn off the street-lights and leave the City in darkness; it was hard up and absolutely had to have some $500,000 due from the City for gas; and it would not have been believed if it had come out openly and told the reasons why the City's gas bills were not paid. I went in vain to the leading editors for support in so doing. Their suspicions, and popular hostility, made the situation impossible; and I got out of my personal dilemma by quitting the business.

Where did the people *themselves* land in all this? What did it advantage *them* to keep the Gas Trust, after its dissolution by the

Courts, from financing needed extensions of its plant by holding it in uncertain legal status for years? What benefit did *they* derive from commissions said to have been paid Aldermen, and the huge blackmail said to have been levied at Springfield, thanks to their own bedeviling of that ill-starred gas concern? Has the Interstate Commerce Commission benefited the buyers of transportation? No; the railroads are making more money than they made in the old days of competition, rate-cutting, fast and loose pools, rebates and free passes. What do the people of the United States *now* stand to win by breaking up "Standard Oil" and "Tobacco"? Will their after-supper smoke or lamplight cost *them* less because it costs the *maker* more?

Every honest friend of democracy—especially its best intentioned friends, our editors, who more than all others are responsible nowadays for our wisdom and our folly—should lay to heart and conscience one thing; *that it never helps the community to make an impossible situation for the financier, while, on the other hand, it seldom hurts him.*

For instance, New York wants subways. The politicians make the situation impossible

for the financier, and New York, meantime, goes without. Chicago, for years, wanted gas plant extensions and good street railways. The politicians stood in the way, and Chicago went without, until it got sick of demagogy. Germany, not long ago, had a serious difference with England and there was danger of war. But Germany's financial status was mixed, and she found it wise to back down. Yuan-Shi-Kai's position just now is not attractive to the financiers, and the Manchus probably must soon yield to the Republic of China, which seems to be better provided with the "sinews of war." As the sporting men say, "Money talks."

Throughout all history the state has never made or saved money. States are machinery for spending. Saving has always been, and unless human nature changes wonderfully, will always be, an affair of individuals. So long as thrift is rare, then, and the many will not save, they and the state must necessarily be dependent on the few for all things involving the use of capital. They must make things pleasant for the financier.

I am not arguing in his behalf. He can always take care of himself. No matter how large his capital, there are always twenty

projects offering to one that he can finance. He can and does pick and choose. I am speaking for myself, and other average men; for my country, if you will believe me sincere, and the welfare of the common people.

XXIII

THE "SWOLLEN FORTUNE" AND ITS USEFULNESS

OF course it is human nature, of a sort, to say to the Rockefellers, "You are too rich: we are too poor. Now divide! Life is unfair. The Lord did not make us very energetic, so we do not work hard; or very thrifty, so we do not save; or very brainy, so we do not plan; or very nervy, so we do not risk. *We* can never make any money. But curse *you,* who can, and do all these things, and are rich! Do you suppose we are going to let you get away with it all? We are many and you are few. We will leave you just enough to keep you alive and working for us. With the rest we will eat, drink and be merry."

It is true that the Creator has not given to us all the exceptional powers of the few, in making money or in anything else; and He is doubtless to be censured for unfairness. Yet history records that what He says goes; and whenever the many have tried to even

up by confiscating the savings of the few, and beggaring everybody, the last state of that many has been worse than the first. It has again and again been proved impossible to kill the goose that lays the golden eggs more than once. Even *pâté-de-foie-gras* has never been deemed good as steady diet.

Moreover, there is a nobler, bigger human nature that says, "You who have exceptional powers, and can do greater things than we, go on in the name of progress, and good luck attend you! You cannot draw far ahead without pulling the world after you. You may be selfish; but your great affairs, wisely handled, offer us all a job of work, and self-support by our own honest toil. If you will pay us what we can earn elsewhere, or a little more, we will work with heart and back for you: and you will be welcome to what you can make beyond our wages. Justice is all we ask. No favors on either side. We are not so mean or foolish as to wish to hold everybody back because we are slow."

In spite of politics and muckraking, I am happy in thinking that this last expresses the good conscience and common-sense of most of us better than the other. I hold no brief for Big Business. It is quite able to get along

without me, and has long done so. But I confess that I have no use for the great American (or European) "Knocker"; the kind of man who, never finding a dollar's worth of work for anybody else, himself able to do nothing more, perhaps, than drive a vitriolic quill, mercilessly vilifies men a thousand times more useful to the community than he is, because in creating great productive industries, they also, according to their powers, create great fortunes for themselves.

"The laborer is worthy of his hire," says Holy Writ. So is the employer worthy of his fortune—worth all he costs the community, even though the fortune be swollen. All he gets out of it is his board, lodging and clothes. He is only a man, like the rest of us, after all: and can hardly eat more than three regular meals, or wear more than one suit at a time. Even though his picture gallery be a dream, his raiment be purple and fine linen, and his fare sumptuous every day, it seems to me but his due reward for finding steady work for thousands of his fellowmen, who are absolutely helpless to create a job for themselves. Moreover, what he *spends* is all that he costs the community, even though he piles up millions and leaves

them to his children, who often do nothing to deserve them.

Those millions are not dead treasure, hidden in caverns like the gold and gems of the Arabian Nights, or of the East Indian despots. They are living, growing *Capital;* in railways, factories, mines, buying and selling, creating and cheapening, always employing more labor and paying more wages, helping the world. They are really Trust Funds, held by their nominal owner or his representatives as managers, for the use and benefit of us all; a part only of the income going to him who created them, and his tribe. If badly invested, or foolishly managed, they waste away and benefit no one. Their conservation, their useful and increasing employment—and the use and conservation of capital is the essential difference between barbarism and civilization—is the difficult task of the captains of industry and finance.

Therefore they do not seem to me, these men of wide grasp, nor the great fortunes which they make and wisely reinvest, to be mistakes of the Almighty, which it is up to "Society" to correct. Both are rather, to me, the instruments of a power far above that of Society for the welfare of the race.

Had history shown anywhere that the state, or the many, in voluntary coöperation, had thus successfully created and conserved capital for the benefit of all, the case of the Collectivist might be considered proven. But so far, especially in our own extraordinary day, this has been the work of individuals, thrifty savers, few in comparison to the whole; of merchants, manufacturers, bankers, transporters, throughout the world, marshaled and coördinated by the "Money Power"—which seems to me the greatest asset of the race, viewed from the standpoint of its material welfare.

In Turkey, Persia, India, China, Darkest Africa, the Amazon Valley, there is no "Money Power," there are no railroads, corporations, or Trusts. Government, such as it is, is the only plutocracy. Are the "common people," the savages or semi-barbarians of those tax-poor, plague-ridden, famine- and flood-devastated countries (though rich in natural resources as any on earth) the better off for that? Would *our* common people change places with *them?*

The Post Office Department recently reports that the known receipts of "get-rich-quick" swindlers who use the mails to de-

fraud—of but a few only whose operations could be traced—were $77,000,000 in 1911. Would not their victims, most of them of small means, have fared better at the hands of the Money Trust, or if they had intrusted their savings to some capitalist of swollen fortune? Even granting that there are a few —a very few—swindlers to be found among such capitalists, would there not at least be a solvent somebody to be sued for false representations and damages?

The greater the fortune, the less can its owner afford to be dishonest or selfish; for great enterprises are absolutely dependent for their prosperity on that of us all. Where are the colossal fortunes of the Cæsars? Gone, with the wreck of ancient Rome.

Let us not, then, be so querulous about the ownership of the world's capital; but rather strive that it shall be well and wisely employed, and increased. One thing is certain: that it must be owned either as now by individuals, or else by the state. Yet, if the state owned it all, it would be quite as far out of the reach of our private use and spending as the swollen fortunes are to-day; and it would probably neither be well handled nor increase, if we may judge by the past!

XXIV

A WAY OUT. "THE CITY GETS 55 PER CENT"

THE broad facts, as I have set them down in homely fashion, and, as I believe, correctly, point to the conclusion that as far as effectual monopoly is concerned the Trusts are failures: that all of them, even those who now seem most successful in monopolizing their respective fields—except, perhaps, a few natural monopolies—may safely and wisely be left to the tender mercies of time and economic law. Further, that business is as democratic as politics, and its voters as competent to take care of themselves and choose their representatives and administrators as are our Democrats and Republicans, progressive or otherwise, to decide the next presidential election. Consequently that they and we need not fear the powers so elected, even though some call them the Money Trust, the Beef Trust, the Predatory Interests; and finally that swollen fortunes are useful to the community—cer-

tainly at the present point of social evolution.

Nevertheless, I am well aware that it will take many thousand treatises like this, each read by many more than will ever read this, to persuade the great American people to leave Rockefeller and Armour alone. Moreover it is not to the interest of our politicians to let them do so. Campaigns are to be fought, and candidates must have issues. Here are a few men, within their own lifetimes grown unprecedentedly rich, by applying under existing laws the great new discoveries and methods of modern commerce to our extraordinary national development. What shining marks! What manifest issues do *they* present! *"Delenda est Carthago"*—*scilicet* Carnegie!

Plainly a sop must be thrown to Cerberus. What for a sop should it best be? Here let me tell one more story:

For ten years prior to 1908, Chicago was the unfortunate proprietor of a "Traction Question." Five mayoralty campaigns were fought upon the general principle that the fat must be fried out of the public-service corporations of that city, especially of the street railways. I am not concerned here with the justice of the case, but merely state

the facts. Meantime the corporations concerned were between the devil and the deep sea of a constantly growing city, demanding larger and larger investments in their properties, and a constantly increasing political menace to the security of the investment they already had. All franchises were limited to a few years more, and those of the street railways were in dispute. For those ten years the traction issue was so useful in local politics—forfeiture of the railway company's property, municipal ownership, etc., were such popular campaign slogans—that it was impossible to obtain renewal of invalidated railway franchises upon any terms proposed by the railway companies. This made the situation impossible for the financier: several companies went into bankruptcy, and the properties were operated for several years by the United States Court. The City tried to finance municipal ownership meantime; but again things were not attractive to the bankers, or even to the people of Chicago, who were supposed to be ready to risk their money in their own service, and that plan also failed. Finally, after the property had been pretty completely wrecked, and service had become intolerably bad, Mayor Dunne

called in Mr. Walter L. Fisher, now Secretary of the Interior, to effect an adjustment of the whole situation. Mr. Fisher was a reformer, and a power in Chicago politics, though he had never held office, or personally profited by the immense amount of work he did in purifying the City Council. He is, as it seems to me, the fortunate possessor of one of the most balanced, yet constructive minds in American public life; and he demonstrated that fact by working out in a few months a complete agreement between the City and Wall Street, for new franchises (with reorganization of the Railway Companies and rehabilitation of their property and service) based upon the following general conceptions:

That good service is the essential desiderandum to the public.

That good service is impossible without good equipment; and that in turn is impossible without sound finance.

That sound finance is impossible without complete security and reasonable return for capital invested.

That complete security and reasonable return mean such as will satisfy the financiers, and fetch the money needed.

That any surplus above such reasonable return, in the case of public-service corporations, especially "unearned increment" due to growth of population, belongs and should revert to the community; less a share thereof, in the way of a bonus for good management and service, sufficient to stimulate the owners and their representatives thereto.

The Fisher adjustment provided, then, that the street railways should be valued at cost of replacement, less depreciation; and to this valuation should be added the cost of rehabilitation and of future extensions, plus ten per cent construction profit and five per cent bankers' commission for financing.

A five-cent fare was granted—a rate known to be ample for profit—with through routes, transfers and provision for ultimate consolidation of all companies (that is, for a *natural* monopoly), and a twenty-year franchise providing that at its expiration the property should be taken over for the valuation predetermined as above, or the franchise renewed. Meantime, so long as the Company should retain its control, the first charge upon net earnings should be 5 per cent upon said valuation as reasonable return on capital;

any surplus above that sum to be divided, 55 per cent to the City and 45 per cent to the Company as bonus for good management and service as called for by a joint commission representing both sides.

I have detailed this agreement at some length, because it was the first general recognition, the first acceptance, to my knowledge, by *the people* (to whom it was submitted) of the broad principle that the investor in a public-service corporation is not a public enemy, but is entitled to protection of principal and interest, and a bonus for good service; and that the banker and promoter are useful citizens, likewise entitled to fair compensation for their services.

One more feature of this notable adjustment must be recorded here. To divide the value of the bankrupt companies' property as fixed by the appraisal among their various classes of creditors, bond and shareholders, was a very complicated affair. The old overcapitalization had been huge, and to scale it down equitably was not easy. Perhaps to avoid quarrels over real values of pieces of paper nominally worth $1000 or $100 each, perhaps to avoid popular hostility to a new company with many millions of like paper issues—I do

not know—the new Chicago Railways Company was organized with a nominal share capital of but $100,000 and it issued, to the various classes of claimants, certificates of participation in ownership and profits, *without nominal par or face value.*

The whole adjustment has worked out admirably in practice. Security of principal and interest with the chance of a moderate bonus, is ideal for the investor; five per cent commission is fair for the banker; ten per cent profit is right for construction and promotion; 55 per cent of net earnings to the City; a 5-cent fare, with through routes and transfers, and no flaunting of millions of watered stock issues in their faces, has been wondrously satisfactory to the public.

The City's share of net earnings is approaching $2,000,000 per annum; and is being put aside for building needed subways in the congested sections. There is no difficulty whatever in financing abundantly the growth of the railway system, however large it may be. The cars, tracks and service are models of their kind, and all clamor against these "great corporations" has been stilled, by the legend posted in handsome roman letters in

every car, "The City Gets 55 per cent. Help the Company to give Good Service." The sop to Cerberus is perfect.

But what has all this to do with the Trusts and the Sherman Law? Just this:

XXV

CONSTRUCTIVE SUGGESTIONS

If, considering all said and done, the Sherman Law is a failure; if time can be trusted to destroy monopoly better than the Courts; if forced competition is impossible, most of the elements of competition being beyond the reach of law; if bigness of business is nothing to fear, and the only conditions under which business can grow and remain big are those of best and cheapest service to the public; if bigness is proof of public preference; if combination fails to monopolize, and dissolution of combination by law fails to dissolve; if Little Business has survived its usefulness in many lines of trade, and is being left to starve to death by its alleged friends, the people; if, in short, the Sherman Law and the whole attack on Big Business are against public interest, and a veritable anachronism:

If, as I say, all this is true, why not try something that *works,* that appears to harmonize Big Business and Government? I

mean Mr. Fisher's principle of recognizing the great corporation as not a public enemy, but a public servant, entitled to fair pay for great usefulness; its creators as not ex-officio criminals, but as veritable trustees of large public and private interests, worthy of honor and reward.

Forty years of boodle aldermen, demagogue mayors, and a misguided press, acting on the essentially dishonest principle of "frying the fat out of the Chicago corporations," demoralized themselves and the corporations alike, until many a true tale of shame, of franchise-buying and blackmail-paying, could be told of that unhappy town; while public service went from bad to worse, growth and progress halted, real estate values fell, and the country was asking, "What is the matter with Chicago?"

It was nothing but a temporary attack of something very like kleptomania, that kept those with anything stealable away from Chicago. Only four years of an honest aldermanic majority (elected largely by the disinterested work of this same Walter Fisher and his near friends in the Municipal Voters' League) sufficed to change the whole relation of the street railways and the people

from settled hate and disgust to friendship and satisfaction. Chicago is doing business with none other than the Money Trust, with mutual confidence and respect, and without suspicion of that corruption, which so many of our "progressive" statesmen declare (and a few of them sincerely believe) to be inseparable from what they call the "Interests."

These statesmen may retort that, in this case, the Money Trust has at last seen a great light, and learned from *themselves* that corruption no longer goes; but I can testify, from my personal knowledge, that at least two of the public-service corporations of Chicago were ready to deal with its Council openly and aboveboard along much the same lines, full twenty years earlier; yet neither its politicians, nor what was more important, its leading editors, the molders of its public opinion, were then prepared for anything but spoliation of the corporations—private loot for the former, public for the latter—until time and intolerably wretched service disgusted the people with bad leadership, and paved the way for Mr. Fisher's constructive work.

It is probably as useless to look to Congress

now, as it was to the Chicago Council then, for an honest attempt to take Big Business out of politics. Its presence there is too valuable as stock in trade for politicians of all faiths. But many of our editors show signs of having done with buncombe, and of getting ready for something really progressive, that will tend to set the wheels turning and shorten the "bread lines" in our cities next winter. Perhaps the people, as usual ahead of their leaders, may be ready too, by November. If so, here are some rough suggestions —logically growing out of the various practical experiences cited above—of a political programme for laying the bogy of Big Business:

Repeal the Sherman Law; and let such States as wish to attack monopoly and unfair competition invoke the common law therefor. (A suggestion made by many.)

Pass, perhaps, a United States Law forbidding corporations engaged in interstate commerce to discriminate, in any way, between patrons anywhere. (Professor Bruce Wyman's suggestion.)

Pass a United States Incorporation Law for concerns doing interstate business, legalizing monopoly and combination, not at-

tempting to control commodity prices, but providing;

That shares of stock shall have no nominal par, or face value, but shall be mere certificates of ownership of a number of equal parts in the assets and profits of the corporation issuing them;

That complete and absolute publicity, even of manufacturing costs, shall prevail;

That shares not issued for cash paid into the corporate treasury, but for services, property, promotion and the like, shall be tied up, and not sold or parted with by original owners, or listed upon public exchanges, until after official publication of valuations and operations for two years succeeding date of issue. Meantime only shares issued for cash, paid the Company, to be lawfully salable and listable;

That the Bureau of Corporations, or a suitable independent Commission, shall fairly value all the property tangible and intangible of all national corporations, control their accounting and publicity and pass upon such questions of discrimination or unlawful share-sales as may arise; but otherwise shall leave the management of the corporations to the judgment of their directors:

That national corporations shall be permitted to pay to their owners, in interest and dividends, according to risk involved by nature in each business, say the first 7 or 8 per cent earned net upon the appraised value of their corporate property, and half of any earnings in excess of that 7 or 8 per cent; the other half of said excess to be paid to the United States; and finally;

That it shall be optional with owners whether to incorporate under national or State laws.

(A combination of the Fisher plan with suggestions made by Mr. Francis Lynde Stetson, Mr. George W. Perkins and other leading authorities.)

XXVI

THEORY OF FOREGOING SUGGESTIONS

THE theory of these suggestions is, that the Common Law actually broke up the Gas Trust, for instance, quite as well as the Sherman Law broke up Northern Securities or Tobacco; and that neither was, as a matter of fact, broken up at all;

That a United States Law forbidding discrimination will protect Little Business against unfair competition from interstate Big Business; and enable the former to live as long as its friends, the people, are sufficiently content with what it can do to keep up their patronage;

That if, as to which I make no guess, a national incorporation law would not conflict with States Rights, and would make corporations organized thereunder virtually at home in every State—instead of being, as at present, subject to various taxes, impositions and disabilities as foreigners, in most States—the advantage of freedom there-

from, and from legal persecution by the United States, would be great enough to justify them in dividing with the United States all profit in excess of that necessary to finance growth;

That with complete publicity real values of property and market values of shares could not remain far apart; and that 7 to 8 per cent profit on the former would put a premium on the latter sufficient to make it easy to sell new issues as required for growth—an absolutely essential requirement;

That two years' ripening of new issues, with publicity of earnings and valuations before permitting the issues to be marketed, would protect investors sufficiently against promotion frauds;

That the payment to the United States gratis of half the net earnings above a reasonable return on capital, and the government supervision necessarily involved, would insure fair prices for commodities, would take the curse of popular hostility off Big Business, just as the "City's 55 per cent" did for the Street Railways in Chicago, and would lead to very large popular investment in the shares of corporations so monopolized;

That in appraising nationalized corpora-

tions' property, the Commission would provide fairly, as the Fisher plan did, for promoters' profit and bankers' commissions. For without these their brains and money will go elsewhere.

I have borne in mind another thing which is generally lost sight of in considering Big Business as it is, and as it ought to be, namely; that our modern view of it is entirely an evolution of recent years. It seems to me neither just to judge prior conduct according to subsequent law; nor wise hastily to reverse past evolution by future experimental prohibition.

Much is said of the power of the corporations and that they derive that power from the State, and consequently that their owners are in a sense robbing the State by appropriating its powers for their private use.

As a matter of fact, the State is feebleness itself to create real power. A few years ago, in order to clear its records of defunct corporations, the State of Illinois passed a law that all those which did not report and pay an insignificant tax, $1.00 I believe, every year, should after one year be declared dead and buried, and their names and charter powers—all they had—should be wiped off

the books of State. *Several thousand of them* were in due time so wiped off, whose thin and empty carcasses, as tenuous as those of last year's midges caught in the dusty cobwebs of some windowless and abandoned habitation, testified eloquently to the feebleness of the State. They were mere possibilities, dead before born. They had neither stockholders nor property nor business; not a vestige of life, or of the bones, flesh and blood of trade. Yet the great State of Illinois had put forth for them its entire creative power!

It is the theory of these suggestions to encourage men to give substance to these shadows. When I was young "the bigger the better" was the popular opinion regarding business. A man put his money into a railway, as into a grocery, for his own profit, without thought of duty to the public imposed by a bare empty certificate of incorporation, whose transformation into a living working entity was left entirely to him. Rebates to large shippers were recognized as fully as fair as discounts to large grocery buyers. Unlimited competition was a matter of course. A man put in his money, took his chances, and expected all the profit the traffic would bear, accepting all its risk.

Now this is all changed. Because business has grown big and fortunes great, we would now limit profits. If so, we must also *guarantee* them, to an extent sufficient at least to fetch the money needed. If the public must share the profits of big business, it must also partake of its losses. This is just, as well as practically unavoidable.

XXVII

THE PUBLIC INTEREST

In all these premises and conclusions I am concerning myself with the future, and use the past only for illustration. I admit freely that much has been done by the Trusts and Corporations in the past that now we think was wrong, and not a little that then we knew was wrong. But then as now their every act was dictated by a man, or men; and if the people must have vengeance, it should be taken on persons, not things. It is as stupid to punish the business, as it would be to hang the automobile that killed the child, instead of the chauffeur.

Very likely it may be hard to punish those guilty men. Statutes of limitation, immunity baths, defective evidence and the like, may let many of them off scot-free. In some cases I should regret this, in others not. But, "It will all be the same a hundred years hence," probably, whether these particular men are punished or not.

What will not be the same, however, is the material prosperity of our country and its common people, if we fasten upon its great commerce, forever, the dead-weight of their ignorant, prejudiced hostility; the curse of envy, hatred and malice betwixt poor and rich.

The tendency of public opinion is more and more to regard Big Business as "fraught with a public interest," to place it under political control. This makes the position of financiers and managers who must needs provide ever increasing capital increasingly dangerous. They can forecast well enough the natural conditions affecting a given enterprise; but the cross-currents and eddies of politics—never. The law of trade is that profit decreases as investment and volume of business increases. What the great financier desires is not so much high rates of return, as security of principal and fair interest.

Of one thing we may be absolutely sure—that he will always take care of himself. A big man is endowed with mental gifts that the utmost might of the people cannot take away from him. He will always be above the crowd. Until recent times his power was political, and was the only power;

wealth came with it. Now he may be either politician, or man of affairs. Either way he is a power; and it is better to have democracy and plutocracy, each a check upon the other, than autocracy or oligarchy alone and unchecked, as of old.

True statesmanship and patriotism seem to me to urge the recognition of power wherever found, and liberal compensation for its use. Commerce is continent-wide or world-wide in these modern days and must be controlled by organizations of commensurate size. They again must be dominated by minds of continental scope, to say the least. Big Business, big men; and big fortunes to be made, sure enough! But these are big days and growing bigger. Those who can swing billions, if their country will but treat them fairly, will well repay their cost. If it will not, there are other countries and other enterprises eager for their force and fortunes. They will not starve.

Even as things are, apart from what their purely selfish activities accomplish for the race, consider their unselfish ones. There is hardly a work of public spirit, philanthropy, education or charity, going on anywhere in our land that is not mainly supported by the

time and money of the very rich, freely given. Conscience seems to grow with wealth. Some day even the beautiful dream of the Socialist may come true, " From every man according to his power; to every man according to his need." The masters of Big Business may sometime rise to the height of putting their great abilities at the service of the state, for the same wage as meted out to all citizens without distinction. If so, they will create a terrestrial paradise for our old friends, and ever with us, Messrs. Weary Wraggles and Dusty Rhoades; and no doubt will be soundly cursed by the latter as tyrants and usurpers of all power.

But now, while every demagogue in the land is twisting the tail of the "Money Power" with all his might, not only with absolute impunity, but confident of gain thereby, why should we, the whole people of the great United States, be afraid?

Years ago a fond Chicago mother was scolding her little girl for playing truant, and riding around on the old Rush Street Bridge, which then, as now, swung open many times an hour, to let the lake vessels into the Chicago River. " Supposing," she tragically cried, " supposing my little Josephine had

been drowned!" "Well, Mamma," retorted the practical kid, "what's the use of s'posin', ain't I *here?*"

What is the use of our all being stampeded by the vivid imaginations of our dragon slayers? We have not been swallowed alive; we are all here. We can search Big Business almost in vain for any prospect of lasting extortion or artificial monopoly; and natural monopoly has long ago accepted Government control.

Let us, then, measure up to our size, stop running away from shadows, quit chasing rainbows. If special privilege has been our public policy, and men have taken advantage of it, let us not curse *them,* but change our policy. If the world has grown, and some of us have not grown with it, and the rest of us find them now too small to be of future service, and desert them, let us be honest and damn *ourselves* for going back on old friends.

Equality of opportunity? Yes, we may strive for it; though conditions will be against us, and an approximation will be the only result. Equality of ability? Nature is against us, and we cannot alter her decree. Equality of reward? An iridescent dream!

Let us end dreams, see things as they are,

and be just, or generous—if you choose—to those who go farther, fare better and do more for themselves than we do; for they must, at the same time, whether they will or no, do far greater things for the community, since none of us have so large a property stake in its prosperity as they.

I have set down these reminiscences and suggestions, in the public interest as I see it, with all sincerity and in deep feeling. For I hated bitterly to retire from corporation life years ago, with fairly clean hands, to be sure, but *beaten* by the worse than useless prejudice of press and people in an honest effort to do justice, alike, to my fellow citizens and my stockholders. Now that time and tribulation have, as I hope, mellowed the temper of us all, these tales may be read as the contribution of one who has suffered toward a better popular understanding of the right relations between Big Business and Government.

XXVIII

MISCHIEF OF PRESS PREJUDICE. HOW TO BLACKMAIL BIG BUSINESS

PERHAPS, since the Lorimer investigations, the ways of "the Boys" in the Legislature at Springfield have changed: but when I was unlucky enough to be familiar with them, back in the '80s, they were artists in blackmail.

According to the best information I could get, the State Senate, at that time, was ruled by a corrupt majority of professionals, whose permanent business was membership in that body, and in one or other party organization, Democratic or Republican, in the large cities of Chicago, Peoria and East St. Louis, and a few of the smaller cities of Illinois. The House of Representatives was reported to me as consisting one-third of old-time dishonest professionals, who coöperated with the majority in the Senate, one-third honest wise men, and one-third honest fools. The professionals came back session after session, and

generally elected the Speaker of the House and organized the Committees, dividing the important Chairmanships among them. A thorough working understanding existed between the Democratic and Republican leaders upon most *business* questions.

Soon after the beginning of each session, one of this corrupt crowd in House or Senate (let us call him O'Brien) would prepare a bill reducing telephone rates in cities of over 500,000 people (which in Illinois could only mean Chicago) from $125.00 per annum to $3.00 per month. He would take this bill to one of the honest fools, from Chicago, if possible—though usually he had to go outside of the city to fill the part properly—and say to him, "'Don't you want to do a good thing for yourself and the people of Chicago? Here is this Chicago Telephone Company, a cursed monopoly, charging $125.00 a year there, and only $36.00 down in the country towns. Everybody says it is an outrage, and the man that stands sponsor for a bill abolishing such a steal will be the most popular politician in Illinois. Don't you want to be the man? I would introduce the Bill myself, but I am chairman of the Committee it will surely be referred

to, and would find myself in an awkward position, pushing my own Bill through the Committee. You can have the credit, and the bill will bear your name, if you will introduce it; and I will see that it passes."

The honest fool burns with indignation against the Telephone Company at once, and is not at all averse to getting into the spotlight in so popular a cause. He introduces the Bill, which goes as intended, to the Committee of which O'Brien is Chairman. The newspapers announce that Mr. Greenhorn has introduced a bill regulating the telephone octopus. The following Friday the Legislature adjourns, as usual, over Sunday, and Saturday morning Mr. O'Brien appears in Chicago. He sends a friend, Mr. Fitzgerald, to the President of the Telephone Company with a message like this:

"You observed that Greenhorn Telephone Rate Bill, doubtless? It is in O'Brien's Committee, and you had better kill it right there. It will not cost much, only a few hundreds, in its present stage. You can have a representative appear before the Committee in open session and let off a lot of hot air about cost of doing business, heavy service rendered,

and all that, and if you do right by O'Brien he will get you an adverse report on the Bill; or if you prefer he will just forget it and let it die in Committee for want of breath." The Telephone president replies to this overture "Nothing doing," for two or three weeks: hearing from Mr. O'Brien. who grows more and more impatient, each Saturday. By and by the latter sends some one to the Springfield reporter say of the *Chicago Tribune,* and gives him a "straight tip" as follows:

"Have you newspaper men got your eye on that Telephone Rate Bill, which seems to have gone to sleep in O'Brien's Committee? *What* is holding it there? Why don't they report it out? *What mysterious powerful influence* is at work to defeat the will of the people?"

The reporter promptly telegraphs his paper, and next morning it has a scare headline, "Mysterious Disappearance of the Telephone Rate Bill. Sinister Influences at Work Against Relief for the People." A column of imagination, picturing the wrath of honest Mr. Greenhorn at the smothering of his offspring, the depravity of the Telephone Company and its secret methods, and

the vigilance of the press, follows the headline; and the fat is in the fire.

Next Saturday Mr. O'Brien's message to the Telephone president changes. "Now you *must* act *quickly!* but it will cost you *more.* The confounded newspapers are on to the fact that the Bill does not come out of Committee, and O'Brien can't hold it much longer. The Boys on the Committee demand more money. It is too risky, while the papers are calling for a report, just to *lose* the Bill accidentally. It must be reported out adversely, and the Boys will hear from it next election, and must take the burden of defending their course. If the Company does not 'come across' with $1,000 the Bill goes to third reading next week."

Still the Telephone president answers, "Nothing doing," and the Bill goes to third reading; and after two or three weeks of increased demands for "killing the Bill on the floor" (which is hardly ever tried) it passes the House and goes to the Senate.

There the same pressure is repeated, only worse. For there is a solid majority in this upper house that can do what it pleases in short order with any bill. But by this time it is well along in the session, and this Bill

is normally low down on the Senate Calendar. If merely ordinary legislative delay can be secured, it will not be reached before adjournment. Delay is, therefore, the Telephone Company's game. It is also the blackmailer's game, for he does not *wish* the Bill to *pass!* That would kill the goose that lays the golden eggs. All he wants is to be bought off for not passing it.

In my day, a few of the telephone and gas companies and two or three of the railroads formed a sort of informal defense association against blackmailing Bills. Each of the former could reach a friend or two in House or Senate, and the railroads had free passes and like favors to bestow: for at that time all politicians expected to ride free and carry their friends also. Between us we could generally manage to delay consideration of purely blackmail bills, until too late for passage, without paying cash blackmail or bribe money. Each company always employed an attorney or two, high in the party organization of each political party, whose main duty was to head off blackmail; and, beside, contributed a moderate sum, a few hundred dollars per session, to the salary and expenses of two or three lobbyists, always on watch

at the Capital, lest something should "get away from" its proposers, and become unmanageable.

It never but once was my lot to be compelled to consider applying either to City Council or Legislature for any kind of charter, franchise or affirmative legislation; and then *I did not apply*. It was generally believed among contemporary corporation managers to be impossible to secure such legislation without paying toll to the Boys. To beat blackmail Bills was easier; and during my fourteen years of public-service-corporation management in Chicago, no money was expended by my companies in connection with legislation except as above. Other concerns were not so fortunate; and their managers talked freely amongst themselves. One man said to me cynically, one day, "I trade with ———" (naming a well-known Alderman) "because it *pays;* but I do it alone, by myself with him, together in a locked room. It is penitentiary business; and if it ever came to a show-down, my word would be as good and probably a little better than his. He is a man of ability and knows enough to *stay bought:* and he comes back term after term. The rest are so infernally greedy that you

cannot get through paying them; and they are always getting beaten for reëlection and making room for bigger and more dishonest fools than they. If the people of Chicago insist, as they do, upon reëlecting such men to manage this great City and control such great properties as ours, the fault is their own for being everlastingly sold out as they are. I have no more hesitation in buying ———, than in buying a pound of beef. We are serving a great public need, on the whole cheaply and well. Buying these rascals is a part of the cost of service, which the people put on us. Well, *they pay the bill!*"

Another man (not a Chicagoan) once said to me, "Our franchise runs out in five years. What are we going to do? The City said to us fifteen years ago, 'Here are the streets: use them for twenty years, make all the money you can on a five-cent carfare meantime. At the end of twenty years we will see what we will do next.' So we put our money gayly in; but fifteen years is not very long in the life of a city, and here we are up against it to-day: we ought to build up such and such extensions, such new power houses, order new cars and relay tracks. But we can get no guarantee for longer than five

years; whereas we ought to build and plan for twenty-five at least. Meantime we have to deal with a lot of politicians who are *waiting for the time* when we shall have a great property and business in the public streets, without a rag of legal right; when it will be theirs to say who shall own and operate it, at what rates of fare, etc.; while the press is clamoring that we have robbed the people for fifteen years, and it will be the people's turn five years hence to rob us. What am *I* going to do meantime? I have a great property to protect and daily public service to provide, and always between my stockholders and the people intervenes an organized band of thieves. *My* only way out is to give up several hundred thousand dollars to the latter, and do it *now,* so as to go on intelligently with plans for the next five years and after; or else to run the property for all it is worth, for the five years only, without putting a dollar into it that can be saved; pocket the people's nickels, and at the end leave a worthless, worn-out carcass of a street railway to those who come after. Meantime, *the public must stand it. They* elect the Alderman. And the *press* must be responsible. *It* misleads the public."

My friend hit the mark in his last sentence —the press is responsible. The press and the Courts are the only forums in which the corporations can publicly appeal to the people—and even the Courts are public in practice only through the press. The press and the people, all of us indeed, have been "barking up the wrong tree" in our efforts to stop corruption. The bribers, officers of great corporations let us say, are always in danger of the law, as it stands; more penal law cannot materially add to their peril, or deter them from old and familiar crime. Hanging has never yet prevented murder. It is of little use to threaten the corporation people. The salient point of successful attack upon corruption, as indicated to me by experience, is the *personnel* of councils and legislatures. *If the people will but elect men who cannot be bribed, who will not use their enormous power to injure corporate property to compel its owners to bribe,* corruption will cease. But it will *never* cease so long as the past and present highly organized machinery for compelling bribery continues to exist.

For its destruction we must look to the publishers, editors and reporters of the daily papers.

Had I been able, had my contemporaries been able, in the days of which I write, to count upon the press to help us resist blackmail and corruption, instead of preparing the soil for it by sowing deep the seed of hatred and suspicion, most of these corporation managers, gentlemen who were honored and trusted in every other walk of life, would deservedly have been honored and trusted in their quasi-public service too.

It is much the same to-day. The rest of the world cannot march on if the press pulls back. We may fairly demand that *it, too,* along with politics and Big Business, shall respond to the spirit of the "uplift," and perform its noble function of disseminating accurate news and molding sound opinion unselfishly, honestly and *impartially,* for the common good.

XXIX

CONCLUSION

I AM aware that, in standing thus, to a certain extent, for things as they are, I am espousing an unpopular cause. Judging from old experience in my corporation life, I shall be rated as a reactionary, of "the classes," and against "the masses"; as a mere worshiper of bigness, Big Business, big men, and all I say will be "discounted" accordingly.

I do not so rate myself, though I own to admiration for great ability. I certainly am not of the big man class; my achievement in the world of bigness having been too inconsiderable. To do very big things, a certain moral robustness, *hardness* if you will, is essential. A big man must not be *squeamish;* and if small things block the way of a big thing, his sense of proportion must bid them stand aside. Such ruthlessness has not been within my temper, else I might at this

moment be an effective monopolist and extortioner.

No, I do not apologize for or gloss over the wrongs done now and again by Big Business, the bullying, the sharp practice, the corruption; they are plain to see. My contention is that the great mass of the transactions of Big Business are morally quite as defensible as those of little business; and economically are far more beneficent to the community. As to big business men—and it is really a question of *men*—I cannot bring myself to believe that any considerable proportion of those to whom we all turn, at once and first, for moral and material support in every public and private cause, whether of philanthropy, education or good citizenship, should, in their business relations to the whole community—alone of all their social relations—be actuated only by greed, be dishonest, "predatory" and detestable.

The Socialist considers every rich man a thief, and all Capital a crime. Certainly the great majority of Americans, so far, deny these propositions. Personally, I cannot consider that instinct to be false or wrong, which, implanted by Nature in the breast of every living thing, says, "That which

I have created with my own brain and hand is justly *mine*." I cannot logically limit that instinct to those whom we classify as "the poor," and deny it to those others we call "the rich"; while, economically, its universal diffusion and operation have resulted in all the advances boasted of by civilized countries.

If I understand pragmatism, I am a pragmatist. I do not believe that any great phenomenon of the material universe, or of organic or social evolution, can appear, wax mighty and persist, unless it develops in accordance with natural law and the ultimate good. Its growth and permanence to me presuppose its usefulness; and the superiority of the forces which develop to those which oppose it. Death itself has never been able to extinguish life.

Such is my theory of Big Business, big fortunes, big men. They exist and persist for the benefit of us all, and are everywhere accompanied (as cause or effect, or both) by a general advance in material prosperity, which carries, certainly, the lower (and perhaps the lowest) classes, so called, proportionately farther along than the higher; as, for instance, the American laborer is better

off in proportion to Mr. Rockefeller, than is the low-caste Hindoo in proportion to the Gaekwar of Baroda. They are the product of forces older and stronger than government: for as language comes first, and grammar (the law of language) comes afterward, so population and property come first, and government of both comes later.

Stronger still, strongest of all, and utterly beyond the power of government to create, regulate or destroy, is the force of *human ability*—the power of the exceptional man. Government cannot compel him to use it for the common benefit; but we others, the people, may *persuade* him to do so, by decent treatment.

This, then, is the end of my sermon. Let us average men put away the gospel of envy, hatred and malice; and be not grudging to those capable of greater material prosperity than ourselves. Let us try them at the bar of a generous and enlightened public opinion, condemning not success but selfishness; and stimulating honest effort in the common service with the reward of our confidence and admiration. As they prosper, let us so conduct ourselves, that more and more they may remember the fine old chivalrous motto,

"*Noblesse oblige*"; and in mounting higher and higher may farther up smooth the ascent for all mankind.

And let us, for our own part, in rugged independence and honest self-respect, ask no alms from man or government; but do our best to carry each his own weight, up the rough hill of life to the level justly marking his personal contribution to the common good.

Must "Society," then, do nothing to lift from the individual full responsibility for his own welfare; nothing to even up betwixt man and man?

Yes, it can do a few things. The community can see that the *child,* who came into the world without fault of his own, shall have a fair chance for sound mind in sound body, for usefulness in life. It can protect the *man,* and itself, against bad housing, impure food, vice and crime, occupational peril. It may even, sometime, prevent the marriage of degenerates, and "breed up" the race as a gardener grows a rose. It may say to each of us, "Thou shalt not so use thine own as to injure that which is thy neighbor's." All these are negatives, self-protection, the exercise of police power, sociology.

But when it comes to economics, to *affirma-*

tives, to saying, " Smith *shall* work, Brown *shall* employ, Jones *shall* buy, Robinson *shall* sell, thus and so "—history has been one long record of failure of such attempts to control human labor and the course of trade.

The Superintendent of the United States Coast Survey once told me, that putting in a new breakwater or jetty in a harbor is always more or less of a gamble; that the engineers never can tell what new twist the local currents will take because of it, and where new sandbars will form to choke old channels.

So it is with the tricky and shifting currents of trade; the *effect* of legislation intended to guide, limit and control it can never be accurately forecast. Only one thing we know, both *a priori,* and by long experience—namely, that when the blundering hand of law imposes artificial and unnatural restrictions upon trade, the richest and ablest masters of trade know best how to take advantage of or evade the law; *and the community suffers!*

If I were a Progressive I should not care to progress backward. Four words would sum up my economic creed, my political slogan, to wit:

" Free Labor, Free Business."